

Digitized by the Internet Archive
in 2022 with funding from
University of Toronto

<https://archive.org/details/31761115493314>

CAI (2)
FN 55
-78R53

1 Canada 2 Tariff Board
3 [Report of the
Tariff Board in
Reference]



Report by THE TARIFF BOARD

Pursuant to the Inquiry Ordered
by the Minister of Finance
respecting

BAKERS' YEAST

•

Reference No. 153

TARIFF BOARD

REFERENCE NO. 153:

© Minister of Supply and Services Canada 1978

Available by mail from

Printing and Publishing
Supply and Services Canada
Ottawa, Canada K1A 0S9

or through your bookseller.

Catalogue No. FT4-153
ISBN 0-660-01824-1

Price: Canada: \$2.00
Other countries: \$2.40

Price subject to change without notice.

CA1
FN55
78R53



CANADA

Report by THE TARIFF BOARD

Pursuant to the Inquiry Ordered
by the Minister of Finance
respecting

BAKERS' YEAST

•

Reference No. 153

Reference No. 153

BAKERS' YEAST

A Report of an Inquiry

By the

TARIFF BOARD

on

the yeast industry in Canada and the effect
of the Customs Tariff on yeast used for
baking



This report, made pursuant to an order by the Minister of Finance and signed by the Board on May 1, 1978, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.

THE TARIFF BOARD

CHAIRMAN

Pamela A. McDougall

MEMBERS

W.J. Landreth, First Vice-Chairman

J. Lupien, Second Vice-Chairman

G. Deachman, Member

A.C. Kilbank, Member

K.C. Martin, Member

J. Bertrand, Member

DIRECTOR OF RESEARCH

W.L. Posthumus

PANEL FOR THIS INQUIRY

L.E. Couillard (Retired)

G. Deachman

A.C. Kilbank

ECONOMISTS

Dr. P.J. Bowden

A.Y. Renaud

OTTAWA

K1A 0G7

Explanation of Symbols Used

- Denotes zero or none reported
- .. Indicates that figures are not available
- * Indicates a reported figure which disappears on rounding, or is negligible

The sum of the figures in a table may differ from the total, owing to rounding.

The record of the proceedings of the public sittings held by the Board on this Reference is referred to as the *Transcript*.

TABLE OF CONTENTS

	<u>Page</u>
CHAPTER I: INTRODUCTION	1
Scope of the Reference	1
Submissions to the Board	2
Sources of Information	4
Other Official Inquiries	5
Restrictive Trade Practices Commission	5
Tariff Board Appeal No. 952	6
Anti-dumping Tribunal	8
CHAPTER II: CHARACTERISTICS OF THE MANUFACTURE AND DISTRIBUTION OF YEAST	11
Nature of Yeast and its Processes	11
Forms of Yeast	12
General Aspects of Costs	15
General Aspects of Pricing	16
CHAPTER III: THE PRINCIPAL INTERESTS INVOLVED	21
Standard Brands Limited	21
Lallemand Inc.	23
Bowes Company Limited	24
Anheuser-Busch Inc.	25
The Consumers	25
CHAPTER IV: DOMESTIC MARKET FOR YEAST AND IMPORT PENETRATION	31
Demand Considerations	31
Timing and Extent of Import Penetration	33
Competitive Factors	36
CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS	43
Conclusions	43
Recommendations	44

CHAPTER I: INTRODUCTIONScope of the Reference

On October 16, 1974 the Minister of Finance wrote to the Chairman of the Tariff Board in the following terms:

The Government has received representations to the effect that the Customs duty on live yeast classified under tariff item 3600-1 does not provide Canadian manufacturers of this product with an adequate level of tariff protection. Representations have also been received that there should be no increase in the duty on live yeast.

The problem to be resolved is what level of tariff protection is needed to maintain a viable yeast industry in Canada while at the same time not placing an unreasonable burden on users. I am of the opinion that the Tariff Board is the appropriate body to consider this matter. I, therefore, direct the Tariff Board to make a study and report under section 4(2) of the Tariff Board Act on tariff item 3600-1.

If the Board's study should indicate that amendments to the Customs Tariff are desirable, I would request the Board to include in its report recommendations regarding any such amendments.

This direction from the Minister has been designated as Reference No. 153.

Tariff item 3600-1 reads as follows:

	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
Yeast, live or active, with a moisture content of not less than fifteen per cent, but not including liquid yeast ...	Free	12½ p.c.	25 p.c.
When in bulk or mass of not less than fifty pounds, the duty shall not be in excess of .....per pound		2½ cts.	

Thus, dry yeasts, whether active or inactive, are excluded from this tariff item. Also excluded are yeast cakes and seed yeast, which enter under tariff items 3800-1 (M.F.N. duty rate 5 cents per pound) and 3805-1 (M.F.N. duty rate 10 p.c.) respectively. What remains proper to tariff item 3600-1 is essentially bakers' moist or fresh yeast for use in commercial and institutional bakeries.

Submissions to the Board

The Board received written submissions with respect to this Reference from Standard Brands Limited and Lallemand Inc., the only two Canadian manufacturers of live bakers' yeast, and from Bowes Company Limited, the principal Canadian importer of this product. A letter, basically supporting the position of Bowes, was received from Corporate Foods Limited, a major domestic user of yeast. A public hearing of the issues was held in Ottawa on March 4 and 5, 1975, at which *viva voce* presentations were made on behalf of the two Canadian producers and the principal importer.

In their written and oral submissions, both Standard Brands and Lallemand have argued for an increase in the ad valorem rate of duty from 12½ per cent to 17½ per cent M.F.N. Since most of the offending imports have been of bulk (fragmented or granulated) yeast in 50-pound bags, both producers have further argued strongly in favour of the removal or negation⁽¹⁾ of the proviso in the existing Schedule which imposes a maximum specific duty equivalent of 2½ cents per pound on imports of yeast in large packages. Uppermost in the producers' minds has been the thought of inflation undermining the protection afforded by a fixed duty of this kind.

In the event, there has been some justification for such concern. As a result of rising f.o.b. values, the amount of duty imposed on imports of bagged yeast has become pegged at the aforementioned level of 2½ cents per pound. By the end of the first quarter of 1977 the ad valorem equivalent of this duty had fallen to less than 11 per cent M.F.N. compared with the 12½ p.c. presently levied on smaller packages of compressed yeast and the 17½ p.c. now proposed by the Canadian manufacturers.

In presenting their case for a higher tariff, both domestic producers have indicated that, in general, their list prices for bakers' yeast sold in Canada are not differentiated on a geographical basis to allow for differences in freight charges. It is claimed that such a system of common delivered prices is especially beneficial to small users of yeast located outside the major urban centres. However, import competition is alleged to have occurred primarily in connection with the supply of yeast to large bakeries in the Toronto area. According to the Canadian producers, this constitutes "the most profitable sector of the market for yeast," and without adequate tariff protection two unfortunate kinds of consequence could ensue.

First, it is claimed that if yeast prices have to be reduced in the Toronto area, in order to meet competition from imports, Canadian producers may no longer find it possible to sell at common delivered prices throughout the country, thus adversely affecting yeast users in other parts of the home market. Secondly, it is stated that the future of certain yeast-producing facilities in Canada would be placed in jeopardy. Thus, the position of Lallemand Inc., the smaller of the domestic manufacturers of yeast, could become untenable, and the company might be forced to cease production. In the case of Standard Brands Limited, the written submission to the Board states

(1) Lallemand Inc. has requested that should this proviso be continued, the minimum qualifying weight should be increased to 250 pounds.

that retention of existing rates of duty would probably force the company to consider closing its small, high-cost yeast plant at Liverpool in Nova Scotia⁽¹⁾ and to contemplate supplying its customers in the Atlantic region with yeast produced by an associated factory unit in the United States. In the company's view, the adoption of this "unhappy recourse" would run counter to official policies for achieving a better regional balance of industry and employment.

In putting forward the importer's viewpoint, Bowes Company Limited, not unexpectedly, has opposed any increase in the rate of duty on live yeast. This, the company's brief states, "would run counter to the spirit of the Kennedy Round" of negotiations conducted under the General Agreement on Tariffs and Trade (GATT), which encompassed tariff items 3600-1 and 3805-1. During the course of the public hearing, counsel for Bowes further submitted that only a small proportion of the "most comparable" items in Group 1 of the Customs Tariff (dealing with animals, agricultural products, fish and provisions) currently carry rates of duty in excess of 2½ p.c. However, as a concession to Canadian yeast-manufacturing interests, it was accepted that, because of the impact of inflation, it would "make some sense to withdraw the specific rate of duty⁽²⁾ but leave the tariff item of live yeast as it is at 12½ p.c."⁽³⁾

It is claimed by Bowes that its importations have not resulted in any loss of employment in Canada. The 2.2⁽⁴⁾ million pounds of yeast which the company imported in 1974 are said to represent less than 6 per cent of total Canadian production on a value basis, and this proportion has not been increasing. However, Bowes contends that although its imports have been "minimal" in volume and percentage terms, they have served to instil a much-needed element of price competition into the Canadian market for yeast, as well as to make a superior strain of yeast available to Canadian users. It follows that the users would suffer if Bowes were to withdraw from the yeast business. In this connection, it is stated that importations by the company, "even at the present low level," could cease if the rate of duty applicable under the Most-Favoured-Nation Tariff were to be increased beyond the existing 12½ p.c.

With respect to the nomenclature and coverage of tariff item 3600-1 it is suggested by Lallemand Inc. that the words "not including liquid yeast" should be deleted from the existing commodity description since, on account of its perishability, this form of yeast does not enter into international trade. Thus, the wording of tariff item 3600-1 would become simply: "yeast, live or active, with a moisture content of more than fifteen per cent." Further to this change, Lallemand would also strike out item 3800-1, pertaining to yeast cakes, on account of its obsolescence. These proposals, if implemented, would leave 3600-1 as the applicable tariff item with respect to all live or active yeast regardless of package size, other than active dry yeast, which would remain classifiable under item 3805-1 as "yeast n.o.p."⁽⁵⁾

-
- (1) Subsequently, on June 30, 1977, the Liverpool plant was closed (see *infra*, p. 22).
 - (2) That is, the maximum duty of 2½ cents per pound on bulk yeast.
 - (3) Tariff Board, *Reference No. 153: Yeast. Official Report of Proceedings, March 4-5, 1975* (subsequently referred to as *Transcript*), pp. 249-50, 325-6.
 - (4) This represents a revision of the company's original estimate of 2.4 million pounds.
 - (5) *Ibid.*, p. 173.

During the course of the public hearing, the possibility of applying the Brussels Tariff Nomenclature in the context of the present Reference was raised by the Board. However, neither of the two Canadian producers nor the principal importer expressed any support for this idea. Indeed, the general feeling among the interested parties appeared to be that, in the Canadian situation, the use of the B.T.N. with respect to yeast could be confusing and misleading.⁽¹⁾

Sources of Information

In undertaking the present study the Board has perforce reviewed and drawn upon a number of different sources of information and opinions. The principal arguments and many of the pertinent facts were, of course, brought to the Board's attention through the written submissions of the interested parties and during the course of the public hearing.

Prior to the hearing, several members of the Board and staff visited the Montreal plants of the two domestic producers in order to view the technical processes of yeast manufacture at first hand. Subsequent to the hearing, much financial and statistical information pertaining to costs, sales and related matters, was sought from the individual companies concerned, and the Board hereby acknowledges the co-operation received in this regard.

Such co-operation has been all the more necessary in view of the limited usefulness of official statistics pertaining to the production, distribution and sale of yeast in Canada, a situation deriving, in part, from the customary sanctions imposed by government statistical agencies upon the release of confidential data in instances where the population of a survey group is very small. Since there are only two producers of live yeast in Canada, it also follows that much of the company data supplied, in confidence, to the Board cannot be released in the present report, even in aggregated form.

There are, of course, many commercial and institutional users of live yeast in Canada. However, as already implied, the users, with one exception, made no submissions to the Board during the early stages of its investigation, and to compensate for this lack of response, it was decided to distribute a mail questionnaire to a sample of commercial bakeries. The questionnaire, which was directed primarily at eliciting information and opinion on matters pertaining to the supply, price, utilization and performance of domestic and imported yeasts, was sent to 55 bakery concerns in different parts of the country. In all, 35 firms responded, of which 17 accounted for over 27 per cent of the total value of live yeast sales in Canada in 1974. The Board wishes to thank these firms for their participation in the survey.

In putting together this report, the Board has also had available to it the published findings and certain of the evidence of earlier investigations by official bodies (including the Tariff Board) into matters pertaining to the manufacture and importation of yeast.

(1) *Ibid.*, pp. 25, 29-31, 323-5.

Other Official Inquiries

Restrictive Trade Practices Commission

In 1957-58, following upon the acquisition of Best Yeast Limited by Standard Brands Limited in 1955, the structure and organization of the industry were probed by the Restrictive Trade Practices Commission under the provisions of the Combines Investigation Act.

Reporting on the results of its inquiry,⁽¹⁾ the Commission found that the acquisition of Best Yeast had given Standard Brands substantial control over the yeast manufacturing business "at least in the Maritime Provinces and probably in other areas of Canada." In support of this finding, the Commission pointed to the large share (amounting to approximately five-sixths) of the total domestic market for yeast⁽²⁾ enjoyed by Standard Brands Limited and its subsidiary.⁽³⁾

While the Commission found "no suggestion" that Standard Brands had "taken advantage of its position to raise prices with a view to monopoly profits," it expressed concern at the reduction in competition which had occurred by reason of the merger. In the opinion of the Commission, "the possibility of long-term injury to the public" would be "greatly enhanced if any further merger should occur in the yeast industry as presently constituted, as a single supplier would be the result." Accordingly, the Commission advanced the view that "Standard Brands not only should not be permitted to acquire its presently remaining competitor, but unless the structure of the industry is greatly altered it should not be permitted to acquire any new competitor that may enter the field."

In this connection - and of particular relevance to the present inquiry - the Commission pointed to "the very low level of yeast imports⁽⁴⁾ under the quite moderate tariff rates now existing" and tentatively concluded that "tariff adjustment would be unlikely to serve as an appropriate means for improving competitive conditions in this industry." Indeed, it appeared to the Commission that "yeast, particularly the more perishable fresh yeast is not readily adapted for international trade."⁽⁵⁾

In the event, the concern of the Commission with respect to the apparently unhealthy competitive environment has not been realized. In the first place, of course, Lallemand Inc. has continued to exist as a separate entity and as a competitor of Standard Brands Limited. It might be argued that such a situation has well suited the needs of the larger company, permitting it to exercise a dominant role in the Canadian market without courting censure as a monopoly. However, it should be noted that Lallemand, in addition to remaining independent, was able to increase its share of the domestic market for live bakers' yeast between 1957 and 1975, competition from the larger Canadian corporation and (more latterly) Bowes Company Limited notwithstanding.

(1) Restrictive Trade Practices Commission, *Report Concerning the Manufacture, Distribution and Sale of Yeast*, Department of Justice, Ottawa, 1958.

(2) Including sales of dried baker's yeast and fresh consumer cake yeast as well as fresh (or live) bakers' yeast. Standard Brands' share of the domestic market for fresh bakers' yeast, by itself, was put at 75 per cent (*ibid.*, p. 77).

(3) *Ibid.*, p. 73.

(4) See *infra*, p. 6.

(5) *Ibid.*, pp. 78-80.

Secondly, imports of live yeast, which in the period 1950-54 ranged between a mere 0.17 per cent and 0.83 per cent of annual domestic output,⁽¹⁾ have increased substantially in recent years; indeed, it is this development which has given rise to the present Reference. Thus, the pessimistic outlook of the Restrictive Trade Practices Commission with respect to the prospects for achieving a more vigorous, competitive climate through an expansion in imports has not been borne out by events.

Tariff Board Appeal No. 952

In part, the growth in imports has been facilitated by changes in the application of the tariff relating to yeast, in consequence of which domestic producers have been provided with a reduced level of protection. More fundamentally, however, the increase in imports has been associated with technical developments in connection with the packaging of live yeast which have served to improve the marketability of this highly perishable product. In more specific terms, these developments, which occurred initially in the United States in the mid-1960s in response to changing techniques in the bakery trade,⁽²⁾ culminated in the introduction of large (50-pound) bags of fragmented or granulated yeast for direct use by bakers. Especially in larger bakeries, this bagged yeast displaced the 1-pound and 5-pound blocks of compressed yeast which had hitherto been in general use for commercial and institutional baking purposes.

At one time, before the development of refrigerated trucking, these small blocks were cut from bulk yeast and wrapped just prior to delivery, an intricate network of cutting and wrapping rooms, route salesmen and trucks being located at strategic distribution points across the country. Deliveries to individual bakeries normally took place several times a week, sometimes daily. This system helped to ensure that yeast reached the baker in good condition and did not have an opportunity to deteriorate significantly prior to usage.⁽³⁾ The present-day distribution system, of course, still addresses itself basically to these concerns.

However, the essential point to note in the present context is that at the time the main lines of the Customs Tariff were being drawn, yeast in bulk or mass was not normally sold directly to bakeries or other users but existed as a semi-finished product requiring further processing. As such (in accordance with the main principle underlying the general structure of the Canadian tariff, whereby finished goods carry higher rates of duty than the materials from which they are made), yeast in bulk form was less highly rated for import duty purposes than yeast in small, user-size packages. While the practice of manufacturing yeast in large blocks for subsequent cutting and wrapping elsewhere was apparently discontinued with the growth of refrigerated transport, the distinction between large and small packages continued to be perpetuated in various revisions of the Tariff Schedule.

In August 1965, when the pertinent tariff items were re-numbered (from 36 and 37 to 3600-1 and 3700-1 respectively), the commodity descriptions and rates of duty were as follows:

(1) *Ibid.*, p. 24. The figures relate to total imports under former tariff items 36, 37 and 38.

(2) See *infra* pp. 13-14, 28-9.

(3) *Transcript*, p. 62.

<u>Tariff</u> <u>Items</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
3600-1 Compressed yeast, in bulk or mass of not less than fifty pounds ..........per pound	Free	2½ cts.	3 cts.
3700-1 Compressed yeast, in packages weighing less than fifty pounds, the weight of the package to be included in the weight for duty ..........per pound	Free	5 cts.	6 cts.

Thus, the specific rate of duty with respect to imports of compressed yeast in small packages was twice that applicable to imports of the bulk product. At the level of prices prevailing in the late 1960s, the rate of duty applicable at that time under tariff item 3700-1 amounted to an ad valorem equivalent of 30-40 per cent M.F.N. This could hardly be considered a "quite moderate" rate, as suggested by the Restrictive Trade Practices Commission.⁽¹⁾ Indeed, it seems likely that, in normal circumstances, import duties of this order of magnitude would serve to keep out any significant volume of imports. In the case of bulk yeast the level of protection was, of course, considerably lower, but here the problems entailed in re-packaging and distributing such a highly perishable product must have acted as a very effective non-tariff barrier.

Bagged (granulated or flaked) yeast, however, did not have to be repackaged before delivery to the baker, and imported in bags of 50 pounds or more it obviously did not come under tariff item 3700-1 at a specific duty of 5 cents per pound M.F.N. (30-40 per cent ad valorem). Neither could it be stated unequivocally that granulated or fragmented yeast in bags was, for tariff purposes, essentially the same as compressed yeast in bulk, and thus dutiable under item 3600-1 at a rate of 2½ cents per pound. The latter became an immediate practical issue in December 1969, when Bowes Company Limited imported into Canada 2,000 pounds of bagged bakers' yeast supplied by Anheuser-Busch Inc., Buffalo, New York. This import was classified by the Department of National Revenue under tariff item 3600-1 on the ground that it was, in fact, compressed yeast since it could be kneaded or pressed like putty and contained approximately 70 per cent moisture. However, Bowes contended that the imported product should have been admitted under tariff item 3805-1, "yeast, n.o.p.," which carried an ad valorem rate of 10 per cent. Since the f.o.b. price of a pound of fresh bakers' yeast at that time was about 14 cents, the difference in duty amounted to approximately 1 cent per pound (1.4 cents, as against 2.5 cents) or, in ad valorem terms, to approximately 8 per cent (10 per cent as against 18 per cent).

Bowes eventually took the issue to the Tariff Board,⁽²⁾ which delivered judgement on April 26, 1971 to the effect that the yeast in question was properly classifiable under tariff item 3805-1. Standard Brands Limited and Lallemand Inc. were intervenants at the Board's hearing of this case, and subsequently the former company appealed the Board's ruling to the Federal Court of Appeal. On December 14, 1971, this appeal was dismissed. Standard Brands then sought leave to appeal to the Supreme Court of Canada, only to have its application rejected in February 1972.

(1) *Report*, p. 79. This assessment appears to have been based upon a review of import data which bracketed highly priced yeast cakes with compressed yeast (*ibid.*, pp. 23-5).

(2) Tariff Board *Transcript Appeal No. 952: Tariff Classification of*

Subsequently, following further representations - this time involving the Department of Finance - a compromise solution was effected in the Budget of May 8, 1972. Therein, tariff items 3600-1 and 3700-1 were deleted from the Tariff Schedule and replaced by the item 3600-1 now in effect.⁽¹⁾ Under the new item, imports of live, fresh yeast, whether in granular form in polyethylene bags or pressed into blocks, became subject to a common ad valorem rate of duty of 12½ per cent M.F.N., with a maximum of 2½ cents per pound on packages weighing 50 pounds or more.

Compared with the immediately preceding situation, this change in tariff meant a slight increase, from 10 p.c. to 12½ p.c., in the duty on bagged bakers' yeast. However, while this particular aspect may have given some small solace to the Canadian producers, the net result of the developments of the preceding few years was to reduce very significantly the level of real protection provided to the principal product of the domestic industry. As already implied, this principal product was compressed yeast in 1-pound and 5-pound blocks, formerly dutiable under tariff item 3700-1 at 5 cents per pound M.F.N., which (assuming an f.o.b. price of 14½ cents per pound)⁽²⁾ converted to 34 per cent in ad valorem terms. Since the imports of bagged yeast, now dutiable at 12½ p.c., competed directly at the bakery with the 1-pound and 5-pound blocks of compressed yeast, the level of protection afforded the latter was thus effectively reduced to little more than one-third of what it had been previously. Further, given the duty ceiling of 2½ cents per pound on imports of yeast in large packages, even this reduced level of protection has been somewhat eroded through inflation.⁽³⁾

Anti-dumping Tribunal

The possibility of market erosion as a result of unfair price competition was not discussed at the public hearing held by this Board in connection with the present Reference, but the issue surfaced shortly afterwards when an official complaint was filed on behalf of Lallemand Inc. and Standard Brands Limited alleging injurious dumping into Canada of yeast, live or active, with a moisture content of more than 15 per cent, produced by Anheuser-Busch Inc., of the United States of America. On August 18, 1975, pursuant to subsection 13(1) of the Anti-dumping Act, the Deputy Minister of National Revenue for Customs and Excise initiated an investigation into this matter⁽⁴⁾ and on October 30, 1975 he made a preliminary determination of dumping respecting the aforementioned goods.⁽⁵⁾ Subsequently, an inquiry into the question of the possible detrimental effects of such dumping upon the domestic industry was undertaken by the Anti-dumping Tribunal.

(1) See *supra*, p. 1.

(2) At the time of these tariff changes, manufacturers normally charged ½ cent per pound more for block yeast than for bag yeast.

(3) See *supra*, p. 2.

(4) *Canada Gazette*, August 30, 1975.

(5) National Revenue, Customs and Excise, *Memorandum D41-59*. In consequence, a provisional duty to a value not greater than the margin of dumping became payable during the period commencing on the day the preliminary determination was made (i.e. October 30, 1975) and ending on the day that an order or finding should be made by the Anti-dumping Tribunal with respect thereto (i.e. January 29, 1976).

Much of the evidence presented to the Tribunal by the main parties concerned went over the same ground as that covered before the Tariff Board in connection with the present Reference. However, in making their case the Canadian producers were primarily concerned to demonstrate material injury with respect to dumping during the period May 1, 1975 to August 31, 1975. The producers made no allegations of dumping with respect to Bowes' earlier importations and no claims of injury arising therefrom.

The essence of the case put forward by Standard Brands and Lallemand was that the dumping associated with the more recent importations of bakers' yeast was preventing them from recapturing accounts initially lost to Bowes. Put rather more finely, the Canadian manufacturers argued that, without dumping, Bowes would not be able to sell yeast at competitive prices, and thus bakeries using the Anheuser-Busch product would revert to yeast produced in Canada.

The Tribunal did not accept this concept of "material injury"; nor did it find evidence of such injury attributable to the dumping "by application of any affirmative criteria, such as reduced sales, reduced production, reduced employment, under-utilization of capacity, price erosion or reduced profits being suffered by the industry."⁽¹⁾

Respecting the likelihood of future injury, the domestic producers alleged a serious threat to exist primarily on account of plans to expand the Anheuser-Busch yeast plant at Old Bridge, New Jersey. This plant has been the source of recent yeast imports by Bowes. However, the Tribunal considered the existence of any such threat to be nullified by other factors "such as absence of evidence of price competition by the importer, absence of penetration by the importer into other centres of high consumption, such as Montreal which is much closer to Old Bridge, New Jersey than is Toronto, and by the fact that increases in imports by Bowes in the first nine months of 1975 over 1974 were minimal."

Accordingly, the Tribunal concluded that the dumping of bakers' yeast, produced by Anheuser-Busch Inc., had not caused, was not causing, nor was likely to cause, material injury to the production of like goods either in Canada as a whole or in the regional market which the domestic producers sought to prove existed.⁽²⁾

-
- (1) *Anti-dumping Tribunal, Yeast, Live or Active, With a Moisture Content of More Than 15 Per Cent, Produced by Anheuser-Busch Inc., St. Louis, Missouri, United States of America. Finding of No Material Injury in Inquiry No. ADT-6-75 Under Section 16 of the Anti-dumping Act, Ottawa, January 29, 1976, pp. 6-8.*
- (2) *Ibid.*, pp. 9-10.

CHAPTER II: CHARACTERISTICS OF THE MANUFACTURE AND DISTRIBUTION OF YEAST

Nature of Yeast and its Processes

Yeast is a microscopic vegetable plant or organism, of which there are many strains or varieties. The species used for its leavening action in bakery products is identified as *Saccharomyces cerevisiae*. Yeast is manufactured - or, more properly, grown - by a process known as "budding", whereby a single cell of yeast throws out a bud or a little branch and then another and these, in turn, throw out more branches or buds.

According to a leading technical authority: "The goals in manufacturing bakers' yeast are: (1) to produce a concentrated mass of cells of the most suitable strain, free from any contaminating micro-organisms, and in a biological state that satisfies the requirements for making bread and other bakery goods; (2) to obtain the highest possible yield from the raw materials in a relatively short period of time at a minimum expense of energy, labour, and human control."⁽¹⁾

In accordance with these goals, yeast strains that have good growth characteristics and optimum dough fermentation strengths, and which are hardy and uniform when mature, are selected and grown in the laboratory. From this culture, quantities of seed yeast are produced, as required. The seed yeast used by Standard Brands Limited is supplied by the company's United States parent organization; that used by Lallemand Inc. is produced in the firm's own Montreal laboratory.

In order to grow, yeast requires a suitable nutrient medium, and several kinds of raw material have been used for this purpose. For a long period of time, continuing well into the twentieth century, yeast for baking was chiefly produced by using brewery processes in which the principal raw material for yeast growth was malted grain. Not surprisingly, since the brewery processes had been developed primarily for the production of alcoholic beverages, the yield of yeast was comparatively small in relation to the amount of raw material used. Shortages of cereal grain during the First World War resulted in the development in Germany of a method of producing yeast using beet molasses as the basic raw material, with certain organic salts added.

The essential elements of this method are those utilized in current yeast-manufacturing processes in North America. Either beet or cane molasses can be used. There would appear to be a preference for beet molasses because of the higher protein content, which gives a greater product yield. However, in eastern Canada the yeast industry (especially Lallemand Inc.) relies heavily upon cane molasses on account of an inadequate supply of beet. In practice, the two types of molasses are frequently used together in a proportion usually dictated by their composition and price. An alternative nutrient medium to molasses is the waste sulphite liquor from paper-pulp mills: a material formerly used by Best Yeast Limited but apparently by no other yeast manufacturer in North America. However, even before the acquisition of Best by Standard Brands Limited, a substantial part of its production capacity had been switched to the use of molasses.⁽²⁾

(1) Kirk-Othmer, *Encyclopedia of Chemical Technology*, 2nd Edition (1972), Vol. 22, p. 533.

(2) Restrictive Trade Practices Commission, *Report*, pp. 13, 19, 50-1.

Yeast is fermented initially in a small container, with molasses generating carbon and other nutrients, and ammonia providing nitrogen for protein formation. Large volumes of water and air are also used to supply oxygen. Phosphates and other minerals are used in smaller quantities. As the yeast grows, it is transferred to consecutively larger and larger fermenting vessels until the requisite quantity is ready for harvesting. At this stage, the fermenting tank is full of mature yeast cells and large amounts of spent liquid called "beer" or "wort."

Subsequently, the yeast is separated from the spent fermentation liquor and washed to get rid of unwanted elements such as salts, gums, colouring matter and unpleasant flavours. The result is a yeast "cream" comprising a mixture of yeast cells and water which (having a moisture content of approximately 90 per cent) may be described as "liquid yeast." This product is technically, but not economically, marketable.⁽¹⁾ The "cream" is then passed through a series of presses or filters to remove as much water as possible, resulting in a product consisting of putty-like strips of live, wet yeast with a moisture content in the range of 67 to 73 per cent.

Forms of Yeast

Down to this point, all bakers' yeasts produced by the foregoing manufacturing processes are treated in exactly the same fashion although, of course, different end-products may dictate the use of different strains of yeast. It is from this point onwards that yeast is prepared for sale in different forms. If yeast is required in the form of blocks, it is first passed through an extruder, where it is mixed with very small quantities of oil and water to aid lubrication and give cohesiveness to the final product. Subsequently, on being extruded in long rectangular shapes, it is sliced and individually wrapped, normally in 1-pound, 4-pound, or 5-pound weights, or multiples thereof, but also - to a very limited extent nowadays - in small (1-ounce aluminum foil-wrapped) yeast cakes for use in home baking.

Alternatively, if yeast is required in a flaked or fragmented form, it is mixed with a very small quantity of oil and passed through a screen with small ($\frac{1}{8}$ -inch) holes. Subsequently (in Canada), it is normally packed in weights of 50 pounds in multiwall, polyethylene bags.

If the intended end product is active dry yeast,⁽²⁾ strains capable of withstanding the effects of the drying process are used and the entire production is kept separate from that of fresh yeast. After fragmentation the yeast is dried in a cylinder which revolves much like an elongated cement-mixer. Air flow, humidity and temperature are controlled. On completion of this process, the yeast is in a granule form, with a moisture content of between 7 and 12 per cent. It is then variously packaged in envelopes, small tins, and large containers, in weights ranging between 8 grams and 200 pounds, depending upon the intended market.

The aforementioned forms of yeast are not equally suitable for all baking purposes. The great virtue of active dry yeast is its comparative stability. This makes it much less perishable than moist

(1) Because of the high degree of vulnerability to contamination or infection, yeast in liquid form would have to be transported directly (e.g., by pipeline) from the point of production to the point of usage under strictly controlled conditions.

(2) There are also inactive (or "dead") dry yeasts. These are generally brewery or distillery yeasts which have become insufficiently active for further use in those industries; they are used, after drying, for animal feed or, after deodorization, as a source of vitamin B for human consumption.

bakers' yeast and, in consequence, much easier to handle. With good packaging, dry yeast can achieve a shelf life of one year, or even longer. Moreover, since it takes approximately three pounds of fresh yeast to produce one pound of dry yeast, there are obvious economies in transportation costs. These factors permit the shipment of dry yeast to commercial users in remote or less accessible areas and facilitate the more general distribution of the product through normal retail outlets. Accordingly, in Canada, active dry yeast has almost completely replaced the small yeast cakes once commonly used for home baking purposes. However, from the standpoint of the ordinary commercial bakery, these advantages on the distribution side are more than offset by a greatly reduced efficiency in use, when compared with fresh yeast, due to a 45 per cent loss of cells during the drying and reconstitution processes. The performance of dry yeast in dough systems is also less reliable.⁽¹⁾

In the case of fresh bakers' yeast, there is an ever-present danger of perishability, whatever the form of end product. In recognition of this threat, special packaging, storage and transportation facilities have been developed to prevent, or control as far as possible, unwanted fermentation resulting from exposure to heat or air. Thus, ideally, fresh yeast is transported at a regulated temperature of 1°C (33° or 34°F) and, pending use, is kept under controlled storage conditions at a temperature not exceeding 5°C (42°F). With proper attention to refrigeration, and with appropriate packaging, wet bakers' yeast can achieve a shelf life, from manufacture to bakery use, of two to three weeks.

With regard to packaging, the 1-pound, 4-pound, and 5-pound units of block yeast are wrapped in parchment and then packed in cardboard cases. This form of packaging, in conjunction with the compressed nature of the product, helps to preclude oxygen. As a result, block yeast stands up somewhat better than bagged yeast to temperature and transportation problems.

With respect to the bulk product (in 50-pound bags), the fragmented nature of the yeast means that it fills the bag rather loosely; air can, therefore, penetrate quite easily through the yeast mass. Moreover, while the bag, itself, is relatively impervious to oxygen, it does contain some air. Consequently, there is a considerable risk that the yeast will start to ferment and feed upon itself unless the temperature is kept strictly within the range 1° to 5°C. It follows that with this form of yeast, distribution over long distances, involving several days in transit or considerable amounts of handling, can pose particularly severe problems. Further, since bulk yeast warms up more rapidly than compressed yeast, once a bag has been opened the contents should be used quickly, or the top of the bag should be reclosed tightly to prevent the access of oxygen with resultant heat production.

However, while bagged yeast is somewhat more volatile than the compressed product, it does possess certain compensating qualities which have served to promote its use, especially by large bakeries. In the first place, it saves time and labour in the initial stages of bakery production by dispensing with the need for frequent unwrapping and crumbling of small blocks of (compressed) yeast. Instead, it becomes possible to scale out the required quantity of yeast with a scoop or else, in many instances, to empty the entire contents of a 50-pound

(1) *Transcript*, pp. 58, 60-1.

bag directly into the brew tank or mixer.⁽¹⁾ Subsequently, the bagged yeast, by virtue of its friable nature, will disperse very rapidly - a consideration favouring its use in continuous mix baking - whereas block yeast will take longer to be assimilated.⁽²⁾ It has also been claimed that bagged yeast possesses a marginal advantage in fermenting capacity on account of a slightly higher solids content.⁽³⁾

Savings by the bakery on the production side, as a result of using bagged yeast, are reinforced by economies in purchasing. Thus, in recent years Canadian bakeries have been able to purchase bulk yeast in 50-pound bags at $\frac{1}{2}$ cent per pound less than the equivalent weight of compressed yeast. In the United States, larger discounts have been made available especially in connection with volume purchases.⁽⁴⁾ These price-differentials have reflected the fact that it is less costly to produce yeast in bagged form than in wrapped blocks.⁽⁵⁾ Factors making for a relative cheapening of the bagged product include a much higher throughput (or rate of production)⁽⁶⁾ and lower packaging material costs. Moreover, after manufacture, bulk yeast cools more rapidly than the block product and so can be shipped out more quickly.⁽⁷⁾

At this stage a further distinction with respect to different kinds of fresh bakers' yeast can usefully be introduced - viz.: a distinction between slow (or regular, or dual culture) yeast, on the one hand, and fast (or accelerated, or single culture) yeast, on the other. Both of these types of yeast can be made in compressed or flake form. However, accelerated yeast has a higher protein content and a lower moisture level than regular yeast. Accordingly, as implied in the name, accelerated yeast is a faster-acting product, performing more quickly in fermentation and in conditioning the dough. This, it is claimed, enables the baker to achieve the same level of production with a decrease in yeast usage variously estimated at between 12 and 30 per cent.⁽⁸⁾ These considerations make accelerated yeast (particularly in bulk form) especially suitable for the automated, continuous production processes of the large modern bakery.

However, while it is speedier in performance than the regular product, accelerated yeast tends to lack stability and, in consequence, has a reduced ability to withstand the rigours of distribution and handling. Accordingly, it is particularly desirable that this type of yeast should be shipped directly from the plant to the bakery, thereby eliminating any handling at storage and distribution points which would result in exposure to varying temperatures.⁽⁹⁾ As a corollary, bakeries using fast yeast should be equipped, if at all possible, with adequate refrigeration facilities. Where neither of these conditions prevail, frequent deliveries by the manufacturer or distributor - probably several times per week - are likely to be necessary.

(1) See *infra*, pp. 28-9.

(2) *Transcript*, Appeal No. 952, pp. 77-8, 91-3.

(3) *Ibid.*, pp. 75, 93, 99.

(4) For yeast purchased in quantities of 5,000 pounds or more, the United States price list of Standard Brands Inc., effective 20 December, 1976, indicates prices on a per pound basis ranging from 25 cents for bulk yeast in 50-pound bags to 27 $\frac{1}{2}$ cents for compressed yeast in boxes of 48 x 1-pound blocks.

(5) *Ibid.*, p. 67.

(6) The experience of Anheuser-Busch Inc., as reported in 1971, indicates a production rate of 12,000 pounds per hour for bagged yeast compared to 5,000 pounds per hour for compressed yeast (*ibid.*).

(7) *Ibid.*, p. 81.

(8) *Transcript*, p. 293; Anti-dumping Tribunal, *Transcript of Public Hearing*, Ottawa, Ontario, December 1, 3-4, 1975, Ref. No. ADT-6-75: *Yeast, Live or Active, with a Moisture Content of More than 15 Per Cent, Produced by Anheuser-Busch Inc., St. Louis, Missouri, United States of America*, (subsequently referred to as ADT., *Transcript*) pp. 34, 125.

(9) *Transcript*, p. 80.

From the manufacturer's standpoint, the comparative costs of producing the two types of yeast seem to hinge to a considerable extent upon the particular strains of yeast used. Based upon the experience of Standard Brands Limited, which is apparently in accord with the scientific literature, it costs approximately 5 per cent more to produce fast yeast than to manufacture the pure Gebrudemeyer strain of slow yeast. This difference is primarily due to a greater usage of molasses in the production of accelerated yeast (the Gebrudemeyer strain utilizes approximately 15 per cent less sugar).⁽¹⁾ In the case of Lallemand Inc., both types of yeast are made from a blend of strains, with costs of production being "virtually identical."⁽²⁾ However, neither Canadian manufacturer differentiates between the two types of yeast in the setting of list prices.

General Aspects of Costs

On the topic of costs of production in general (embracing all types and forms of fresh bakers' yeast), by far the largest single cost element is that of molasses, which, in normal conditions is likely to account for between one-quarter and one-third of total factory costs.⁽³⁾ Overheads (comprising indirect labour and management, depreciation and other fixed costs) account for perhaps a further third. The relative importance of these overhead expenses would presumably be reduced as a result of increased output, although the economies of scale in regard to the production of yeast are not easy to assess.

Opinion ventured during the course of the public hearing suggested that from the standpoint of manufacturing costs, an optimum-sized yeast plant would be one producing 50-100 million pounds of yeast per year, which greatly exceeds the potential output of any single Canadian plant at present and, indeed, is considerably in excess of the total Canadian market for fresh bakers' yeast (amounting to 35-40 million pounds in the early 1970s). However, since yeast is produced by what is essentially a batch process, rather than by continuous mass production methods, the possibilities for reducing unit factory costs by increases in the scale of output are perhaps somewhat limited.⁽⁴⁾ Of course, at the level of the firm, as distinct from that of the plant, size may confer considerable economies in the spheres of purchasing and sales. The purchase of packaging materials is a case in point.⁽⁵⁾

With respect to costs incurred outside the factory door, the low value of yeast in relation to bulk, combined with the need for exceptionally well adapted marketing arrangements, predictably translates into relatively high costs of distribution. Thus, data supplied to the Board by the two Canadian producers indicate distribution costs ranging between 8 and 16 per cent of average selling prices for fresh bakers' yeast during the years 1971 to 1975. These, of course, are average figures which hide wide variations in the costs of supplying individual customers. Such costs are obviously affected by the distance between the manufacturing plant and point of final delivery but other considerations can also weigh heavily. These considerations include whether delivery is direct or via the manufacturer's warehouse, whether public or private transport is used, the size of the shipment to the area or centre in question, and the quantity of yeast purchased by the individual baker.

(1) ADT., *Transcript*, pp. 101, 125-6.

(2) *Ibid.*, pp. 35, 60-1, 91.

(3) *Transcript*, pp. 101, 158, 165.

(4) *Ibid.*, pp. 44-8.

(5) *Ibid.*, p. 63.

In general, the two Canadian producers use their own refrigerated trucks for deliveries to major customers. However, this can be relatively costly if customers are small or widely scattered. For sales outside Ontario and Quebec, Lallemand uses piggy-back rail service to Moncton and railway express refrigerated cars to Winnipeg.⁽¹⁾ However, refrigerated transportation is not available on a regular or scheduled basis in some parts of the country, especially for small consignments. At one time, Standard Brands maintained 11 truck routes in the Maritimes.⁽²⁾ Now, however, with the closure of the company's Liverpool operation,⁽³⁾ yeast customers in this region are serviced either by direct shipments from Montreal or through the utilization of distributors.

Referring to instances where refrigerated trucking services are available, the Canadian producers indicate a figure of approximately 1½ cents per pound as the rate charged at the end of 1974 for the transportation of a full truckload of yeast (comprising 40,000 pounds) from Montreal to Toronto, while approximately 6¼ cents per pound is cited as the corresponding rate for the transportation of 1,000 pounds of yeast from Montreal to Thunder Bay. The producers further indicate a freight saving of 10-20 per cent by the use of their own trucks for transport of the full-load shipment to Toronto, such use sometimes hinging (in the case of one producer) upon the availability of a full return load.⁽⁴⁾ However, care is needed in the interpretation of these figures, and comparisons can be misleading. For one thing, there can be few, if any, bakers, even in Toronto, who take delivery of 40,000 pounds of yeast at one time. Consequently, the probability is that yeast shipments of this size are often consigned to a warehouse, possibly stored overnight, split up and separately packaged for individual delivery, and subsequently shipped out. These various operations can obviously be fairly costly - more expensive, indeed, than the element of long-distance freight. Thus, figures supplied by one of the Canadian manufacturers with respect to shipments of yeast from Montreal to Toronto in 1974, suggest an average plant-to-baker delivery cost of 4.45 cents per pound, of which 2.35 cents (i.e., more than half) is attributed to local handling and delivery charges.

Such local costs seem to hinge to a considerable extent upon the size of the baker's order - the smaller the order, the larger in a relative sense are those cost elements attributable to actual delivery and physical handling. Thus, local delivery expenses for small orders (above 100 pounds) are estimated by one producer on a per-pound basis to be at least three times those for the very large deliveries. Billing and collection costs in respect of small orders also tend to be relatively high. However, differences in distribution costs attributable to differences in the quantity of yeast delivered appear to be adequately allowed for in a price structure which leans heavily in favour of large purchases.

General Aspects of Pricing

On the subject of pricing, reference is made to Table 1, which sets out, by way of example, Standard Brands' (Fleischmann's) price-list for fresh bakers' yeast, effective December 2, 1974. (Lallemand's corresponding price-list is essentially identical). It will be seen that a difference of 41 cents per pound separates the highest price on the list from the lowest. In addition to paying more for yeast on a poundage basis, the smaller purchasers might also be faced with a minimum delivery charge.

(1) *Ibid.*, pp. 179-80.

(2) *Ibid.*, pp. 63-4.

(3) See *infra*, p. 22.

(4) See also ADT., *Transcript*, pp. 83-5.

Table 1: Manufacturer's List-Prices of Fleischmann's Fresh Bakers' Yeast, Effective December 2, 1974

Quantity Delivered	Prints of 1 lb., 4 lbs., or 5 lbs.	Bags of 50 lbs.
- lbs. -	- cents per pound -	
Under 25	65	-
25 - 49	45	-
50 - 99	36 $\frac{1}{2}$	36
100 - 199	33 $\frac{1}{2}$	33
200 - 499	31 $\frac{1}{2}$	31
500 - 999	28 $\frac{1}{2}$	28
1,000 - 1,499	26 $\frac{3}{4}$	26
1,500 - 1,999	26	25 $\frac{1}{2}$
2,000 - 4,999	25 $\frac{1}{2}$	25
5,000 - 7,499	25	24 $\frac{1}{2}$
7,500 and over	24 $\frac{3}{4}$	24 $\frac{1}{4}$
*15,000	24 $\frac{1}{2}$	24

* Pre-scheduled direct delivery to one location. Applicable to Metro Montreal, Metro Toronto, Hamilton, London and Kitchener.

Most of the output of the industry is purchased by a comparatively small number of large bakeries buying in bulk. The producers of yeast do not apparently find it particularly profitable to sell in small quantities, in spite of the higher prices charged for such quantities on a poundage basis. Consequently, many of the sales to the smaller bakers, especially in the less populated areas, are handled through jobbers or agents. These handle the distribution of Lallemand's yeast in the Maritimes and Manitoba, as well as the servicing of most of the firm's smaller customers in Ontario and Quebec.⁽¹⁾ As a general policy, Standard Brands does not deal directly with orders for less than 100 pounds, but rather prefers to leave this trade to jobbers. The latter are able to buy yeast on favourable terms, although the Board was informed that in Canada there are no fixed percentage distributor discounts. Instead, jobbers may expect to be charged at the 2,500-pound level of user prices, with a minimum stipulated requirement. On the other hand, in the United States, percentage discounts to yeast distributors are commonplace and, according to information obtained by the Board, jobbers are normally allowed a discount of about 10 per cent from specified user prices.

The aforementioned aspects of pricing policy received no more than incidental mention at the public hearing held by the Board in connection with this Reference. In contrast, considerable emphasis was placed by the manufacturers' representatives upon the geographical aspects of pricing, particular reference being made to the operation of a system of common delivered prices for yeast in all but the more remote regions of Canada,⁽²⁾ whereby the same price is charged per quantity of yeast delivered. This system was said to replicate similar common pricing arrangements in the United States and to date back to at least 1866. The Board accepts the testimony of Bowes' representative

(1) *Transcript*, pp. 179-80.

(2) These remoter regions include Newfoundland, Lakehead and North-western Ontario, Yukon, and the Northwest Territories, where an additional upcharge is imposed.

that industrial food products (excluding fresh bakers' yeast) are not normally sold at national standard prices inclusive of delivery, as are brand food items for retail distribution,⁽¹⁾ and it is of the opinion that the rationale for the adoption of a system of common delivered prices with respect to yeast must be sought in the characteristically peculiar marketing-production environment in which the yeast industry operates.⁽²⁾

As brought out in testimony before the Anti-dumping Tribunal,⁽³⁾ a policy of selling at common delivered prices across the country involves averaging freight and associated distribution costs with the net return to the company varying with the actual cost of delivery. Not discussed in testimony is the fact that for the multi-plant firm such a policy involves averaging not only distribution charges but also the manufacturing costs of production units in two or more locations, and the differences in this regard may well be of a much larger order of magnitude than in the case of freight charges.

There may be some accounting advantages in this arrangement, especially for the multi-plant firm which does not wish to cost on a separate branch basis, while customer relations are obviously less complicated if the factory-door price quoted for a product does not vary with the particular production facility. However, there is no doubt that national standard pricing tends to obscure the advantages and disadvantages of different locations and glosses over the economic strengths and weaknesses of individual production units.

Under such pricing arrangements the low-cost, well-located plant sells at the same delivered price as the high-cost, poorly located factory unit. If the enterprise is operated strictly in accordance with economic criteria, then (assuming each production unit is individually costed) the price charged for the product must, at least over the longer-term, be set at a level which affords some net return to the least efficient unit. If it does not, the firm will obviously lose revenue by keeping such a facility in operation. Whether or not it will be possible to set a price level which will cover the production and distribution costs of the least efficient unit will depend very largely (especially in the case of homogeneous products) upon the prices charged for competing products, including those imported, or potentially capable of being imported, from abroad. From a different standpoint, it also follows that a price sufficient to cover the costs of the least efficient unit may well yield, according to the particular circumstances of the case, a high economic return to the operation of the most efficient facility. However, the latter may achieve only normal profit if the least efficient unit is being operated at a loss.

In the present context, those who theoretically pay for the system of common delivered prices are the customers situated close to the centres of yeast production and, more especially, those customers located near the most efficient manufacturing units. Thus, the price paid for yeast by Montreal bakers clearly helps to reduce the burden of freight charges on bakers in, say, Sudbury or Quebec City. By the same line of reasoning, it might also be argued that bakers in western Canada (where Standard Brands has a "well located" production unit)⁽⁴⁾ are, on balance, subsidizing the cost of yeast to bakers in the eastern parts of the country.

(1) *Ibid.*, p. 247; see also pp. 117-24, 142-3, 180-1.

(2) See *infra*, p. 20.

(3) ADT., *Transcript*, p. 27.

(4) *Transcript*, p. 97.

In the present instance it would seem important to determine, as far as possible, where the Toronto bakers fit into the scheme of things. Are they, in effect, subsidizing yeast deliveries to customers in remote locations, or would they be required to pay more for yeast under a system of c.i.f. pricing? The producers refer to the large volumes of yeast shipped to Toronto and the use which they make of their own trucks for this purpose.⁽¹⁾ Doubtless these factors are reflected in a relatively low freight cost per mile of long-distance transport. However, figures supplied to the Board appear to indicate that in 1974 it cost one producer, on average, 2.10 cents per pound more to deliver yeast to bakeries in Toronto than to those in Montreal, and that if the actual - rather than the average - costs of distribution had been charged, the Toronto customers would have been required to pay an additional 1.05 cents per pound on top of list prices.

Viewed from a somewhat different angle it thus appears that the actual profit margin per pound of fresh bakers' yeast sold in the Toronto market in 1974 was 1.05 cents less than that obtained on all sales.⁽²⁾ At this juncture, the producers' reference to Toronto as the "most profitable market" for yeast⁽³⁾ may be recalled. Clearly, on the basis of the above figures and in terms of net return per unit of sales this was not the case, although the size of the metropolitan market could compensate somewhat for the apparently low profit margin per pound of yeast.

However, there remains the point, made by the domestic manufacturers, that without the Toronto market, the Canadian yeast manufacturing facilities, notably in Montreal, would be significantly under-utilized. Thus, low, or even negative, profit-margins on sales in Toronto (or anywhere else for that matter) might be accepted for the sake of higher, more efficient plant operation, resulting in lower overall costs of production and a higher overall level of profitability. However, such an approach only makes economic sense so long as incremental production and distribution costs are covered, and there must obviously come a point when gains in production efficiency can be offset by losses on the marketing side.

The case of Toronto may be seen as part of the wider general problem of markets whose geographical position close to the United States border exposes them to the threat of competition from U.S. producers. The Canadian yeast manufacturers apparently feel that if yeast prices were to reflect the full costs of distribution in each case, sales to these markets would be lost.⁽⁴⁾ However, it seems to the Board that even under a system of c.i.f. pricing, distributional difficulties would severely limit such market encroachment outside major urban centres.⁽⁵⁾ Moreover, although c.i.f. pricing could result in some weakening of the competitive position of Canadian yeast producers in areas bordering on the United States, by the same token it should also serve to strengthen their relative position in other parts of the country.

(1) *Ibid.*, p. 204; ADT., *Transcript*, pp. 27, 88.

(2) In actual fact, the profit-margin differential would have been greater than 1.05 cents per pound on account of the relatively low average selling price of yeast in the Toronto area, reflecting bulk purchases by large bakeries.

(3) *Supra*, p. 2.

(4) *Transcript*, pp. 180-1; ADT., *Transcript*, pp. 89-90.

(5) See *infra*, pp. 41-2.

A further feature of yeast pricing which calls for comment is the similarity of prices charged by the principal suppliers. The price-lists of Standard Brands Limited and Lallemand Inc., at least from 1968 onwards, are remarkably alike, even though the two Canadian manufacturers do not compete west of Winnipeg. In the Toronto market, after an initial period of adjustment, Bowes Company Limited now sells yeast at essentially the same prices as the two Canadian producers. Thus, unless a customer is able to negotiate special terms outside those listed,⁽¹⁾ there are no price advantages in buying from one supplier rather than another. In this kind of situation, non-price considerations, such as quality of service, become important.

The similarity of prices among yeast suppliers (which is also found in the United States) seems to reflect the fact that bakers' yeast is essentially a homogeneous or undifferentiated product, at least as far as individual types of yeast are concerned. Moreover, the overall consumption of yeast is tied strictly to the production of baked goods, and is little affected by changes in price. Consequently, since the market tends to be limited and can be served by comparatively few producers, the larger (or largest) assumes price-leadership and the rest follow suit, since not to do so is to lose either customers or revenue.⁽²⁾ Although there have been occasional departures in the past,⁽³⁾ Lallemand's list prices for yeast have essentially followed those of Standard Brands Limited in Canada and these, in turn, appear to have followed those of yeast producers in the United States.

(1) There is some suggestion of this practice.

(2) *Transcript*, pp. 180-1; ADT., *Transcript*, pp. 21-2, 50-1, 87-8.

(3) For example, in November 1974, an increase in the price of yeast of 3 cents per pound was initiated by Standard Brands Inc., in the United States. Standard Brands Limited proposed to implement a similar increase in Canada. However, Lallemand Inc., fearing a loss of business to Bowes (on account of an expected smaller increase in the price of Anheuser-Busch yeast) announced a price increase of only 1½ cents per pound, and Standard Brands adjusted their price-list correspondingly (*Transcript*, pp. 227-8). Lallemand also apparently gave the lead in listing a 15,000-pound price-bracket for fresh bakers' yeast.

CHAPTER III: THE PRINCIPAL INTERESTS INVOLVED

Standard Brands Limited

It has already been indicated that there are two producers of fresh bakers' yeast in Canada. Standard Brands Limited, the larger of the producers, is a wholly-owned subsidiary of Standard Brands Inc. of the United States. The Canadian company comprises four main operating divisions and covers a widely-diversified area of food product manufacture. Among the divisions, the Fleischmann Company is responsible for the production and sale of yeast and other products used in the bakery and food service industries.⁽¹⁾ Yeast made by Fleischmann appeared on the Canadian market in 1876 and the company began manufacturing in Canada early in this century.⁽²⁾

While the sales of Standard Brands Limited have increased significantly during the past two decades, yeast has not been one of the company's major growth sectors. In 1954, prior to the purchase of Best Yeast Limited, the total net sales of Standard Brands Limited were nearly \$27 million, with sales of yeast valued at about \$5.5 million,⁽³⁾ or 20 per cent of total sales. On the other hand, in 1974, net sales by the company were \$225 million,⁽⁴⁾ of which yeast represented \$11.0 million, or slightly under 5 per cent.

As at the beginning of 1977, Standard Brands Limited operated 24 manufacturing plants in seven Canadian provinces and warehouse distribution facilities in major urban centres across the country. As at the beginning of 1977 it had three yeast-producing establishments, these being located in La Salle (Montreal, P.Q.), Calgary (Alberta) and Liverpool (Nova Scotia). The plant located at La Salle was built during the years 1929-30 and is the largest of the company's yeast-producing facilities. The location is well situated in relation to industrial consumers and sources of raw material supplies. With respect to the latter, Mr. J.F. O'Neil, President of the Fleischmann Company, stated in testimony that "the location we have is close to the source of raw materials. We obtain a lot of our molasses from St. Hilaire in Quebec, and it is also an open port where we can bring in boat loads of cane molasses, and very economical in that respect."⁽⁵⁾

The plant located at Calgary was built in 1947, after the volume of sales in the Canadian west had grown sufficiently to justify the construction of a yeast-manufacturing facility. Previously Standard Brands Limited had supplied the western market with yeast imported from associated plants situated in the northwestern United States. Again according to Mr. O'Neil's testimony, it was the most logical place to locate a yeast plant to service western Canada, given the ready availability of beet molasses, the supply of clean water and the facilities for transporting goods to various parts of the western market.⁽⁶⁾

(1) The Fleischmann Company also manufactures food products for the consumer market. The other three operating divisions of Standard Brands are: Standard Brands Food Company, which produces and sells consumer products covering both human and animal foods; Lowney's Limited, which manufactures and sells confectioneries; and the Wine and Distilling Division, which imports wines and makes and sells alcoholic beverages.

(2) Restrictive Trade Practices Commission, *Report*, p. 14.

(3) *Ibid.*, p. 16.

(4) Standard Brands Limited, *Annual Report 1974*.

(5) *Transcript*, pp. 76, 78, 86, 97.

(6) *Ibid.*, pp. 78, 88, 96.

The plant at Liverpool was closed at the end of June, 1977, at which time it was the smallest of the company's three yeast-producing units. It was built in 1935 by Best Yeast Limited, from whom it was acquired by Standard Brands in 1955, together with another yeast plant which had been established by Best at Thorold, Ontario, in 1940. Since both of these manufacturing units initially utilized waste sulphite liquor (rather than molasses) as the principal growth medium for the production of yeast, it seems reasonable to assume that a prime locational influence in each instance was the proximity of paper pulp-mills. Subsequently, both plants were adapted to use molasses - one before, and the other after, the merger with Standard Brands. The Thorold yeast-manufacturing facility had not represented a good investment for Best Yeast Limited, having operated at a loss in every year from 1940, when it commenced the production of yeast, down to 1955, except for the four years 1948 to 1951.⁽¹⁾ After being operated by Standard Brands for two or three years the Thorold plant was closed.

With respect to the types of bakers' yeast produced by Standard Brands Limited, all three of the production facilities in operation at the beginning of 1977 manufactured accelerated yeast. In addition, the larger plants, at La Salle and Calgary, produce the slow or regular bakers' yeast, while La Salle also manufactures the active dry product. Most of the dry yeast is exported or retailed for home baking purposes, with only comparatively minor quantities going to the domestic bakery industry. In 1974, sales of active dry yeast accounted for over half of the gross value of sales by the La Salle yeast plant, partly reflecting its position within the larger (North American) corporate organization of Standard Brands Inc. as the main source of dry yeast exports.⁽²⁾

In addition to manufacturing accelerated yeast in 1-pound and 5-pound blocks, the Liverpool plant before its closure, also produced 1-ounce foil-wrapped live fresh yeast cakes for the home baking market. These cakes were marketed primarily in the Atlantic provinces with some sales being made in south-western Ontario, where there is a concentration of immigrants from central Europe. However, with the decline in home baking, the production of foil cake has fallen off over the years, and by 1974 it was down to less than 5 per cent of the total output of the Liverpool plant. With the closure of this facility, the production of foil cake has been taken over by the La Salle plant.

In the period preceding the closure of the Liverpool plant, La Salle accounted for rather more than half of Standard Brands' output of wet bakers' yeast and for approximately two-thirds of the company's output of yeast of all types. By contrast, the Liverpool facility contributed less than one-tenth of Standard Brands' output of fresh yeast and a mere 6-7 per cent of its total yeast production. Furthermore, whereas only parts of the company's facilities at La Salle and Calgary were (and are) used to produce yeast, the Liverpool branch manufactured only yeast. Thus, the latter facility was a very minor element in Standard Brands' overall operation. Moreover, the company has not attempted to hide the fact that, in addition to being the smallest of its yeast-manufacturing units, the Liverpool plant also had the highest costs of production.

(1) Restrictive Trade Practices Commission, *Report*, pp. 19, 46, 50-2.

(2) *Transcript*, pp. 78-9, 128-9.

Lallemand Inc.

Lallemand Inc., the other Canadian producer of bakers' yeast, was originally incorporated in 1915 as Fred A. Lallemand Refining Company of Canada, with head office and plant in Montreal. The firm was acquired by the present owners in 1947 and Mr. Rolland Chagnon, its major shareholder and president in 1975, described it in testimony as a family business.⁽¹⁾ It is a wholly-owned Canadian company and has been producing yeast in Canada since 1923.⁽²⁾

Prior to June 1972, Lallemand operated two manufacturing plants, only one of which produced yeast. The other, located at La Prairie (Montreal), manufactured or processed a range of other food ingredients including pie fillings, malt syrup, bakery powders, jellies and jams. These and a number of imported grocery items were sold by the firm to hotels, restaurants, hospitals, other public institutions and bakery establishments across central and eastern Canada, distribution being handled from sales offices and warehouses in Montreal, Quebec City, Moncton, Winnipeg and Rexdale (Ontario). In the years immediately prior to 1972, this side of Lallemand's activities accounted for approximately three-fifths of the company's total sales revenue. However, it is clear that at this time the company was over-extending itself and was losing money largely on account of a top-heavy distribution network.

In June 1972, in the middle of a financially-disastrous period, the company sold its La Prairie food products plant to Rose & Laflamme Limited, a subsidiary of Bowes Company Limited, the principal importer of fresh bakers' yeast. This sale permitted the company to embark upon a thorough-going rationalization of its distribution system. In consequence, Lallemand has essentially ceased to supply food service sectors such as hotels and restaurants and now concentrates upon the servicing of commercial bakery establishments. In this connection, the company still sells food items other than yeast, but only in the role of a distributor and on the basis of a reduced product line.⁽³⁾ Whereas, prior to the sale of the La Prairie factory, Lallemand's sales representatives might have called on over 600 customers, they now call on perhaps one-third of this number. In line with these changes, the balance of sales revenue has also changed, with yeast now accounting for between two-thirds and four-fifths of the firm's total sales revenue, the latter amounting to somewhat under \$4.4 million in calendar year 1975. Obviously, the prosperity of the company depends to a much greater extent than does that of Standard Brands upon the existence of a favourable market for yeast.

With respect to yeast, Lallemand in its early days produced small quantities of fresh consumers' yeast cakes, in addition to live bakers' yeast and active dry yeast. In 1955, production of the consumers' yeast cakes was discontinued. Dry yeast has continued to be made in variable quantities⁽⁴⁾ ranging, in terms of value, between 2 and 8 per cent of total yeast sales.

Lallemand Inc., having only one yeast manufacturing facility, does not serve the entire Canadian market for fresh bakers' yeast. Most of the company's sales are in Quebec and Ontario, where its share of the market approaches that of Standard Brands. Because of freight considerations, Lallemand does not compete in the fresh yeast market

(1) *Ibid.*, p. 238; Restrictive Trade Practices Commission, *Report*, pp. 17-18.

(2) *Transcript*, p. 187.

(3) *Ibid.*, pp. 194, 245.

(4) Restrictive Trade Practices Commission, *Report*, p. 17.

in Newfoundland or west of Manitoba. On the other hand, reflecting the generally more favourable distribution possibilities, the company sells limited quantities of dry yeast throughout the domestic market as well as overseas,⁽¹⁾ with exports accounting for 60-80 per cent of such sales, by value, in recent years.

Bowes Company Limited

Bowes Company Limited, the principal importer of fresh bakers' yeast, has been in business since 1893, primarily as a manufacturer, processor and distributor of food ingredients for industrial users. The latter include bakeries, dairies, confectionery and ice-cream plants, institutions, drive-ins, and some retail outlets. The company's head office, main warehousing premises and principal processing plant are located in Toronto, where two of its four major subsidiaries are also situated.⁽²⁾ Two other subsidiaries, including Rose & Laflamme Limited, are located in Montreal.⁽³⁾ In addition, the company operates branches in Winnipeg, Calgary and Vancouver, and claims to sell from coast to coast. Since October 1972, Bowes has been a wholly-owned subsidiary of George Weston Limited, the food manufacturing and merchandising conglomerate, whose sales in 1975 exceeded \$5.04 billion.⁽⁴⁾ On a much more modest - although, by no means, insignificant - scale, Bowes' sales in 1974 amounted to approximately \$50 million, of which fresh bakers' yeast accounted for about 1 per cent.⁽⁵⁾

The entry by Bowes into the yeast business in December 1969, preceded the firm's acquisition by George Weston Limited. In explaining his firm's decision to deal in yeast, Mr. B.B. Green, President of Bowes Company Limited, alluded in testimony to a desire to "round out" the already wide product line (including some imported items) sold to bakeries. According to Mr. Green, the company's decision to sell yeast was supported, if not actually prompted, by certain Toronto bakers, who felt that it would make for a more competitive and generally healthier supply situation.⁽⁶⁾

However, Bowes has not viewed the domestic yeast market only in terms of imports: the firm has also looked into the possibilities of producing bakers' yeast in Canada. Thus, in 1973, at a low point in the fortunes of the domestic industry, Bowes Company Limited in the company of Anheuser-Busch Inc., its United States supplier, approached Lallemand Inc. with an offer to purchase the latter's Montreal yeast plant. The shareholders of Lallemand, having already turned aside two previous approaches of Anheuser-Busch in 1970 and 1971, were unwilling to sell at the price offered and no agreement was reached.

At the same time as these negotiations were proceeding, Bowes and Anheuser-Busch were considering an alternative plan involving the erection on a joint-venture basis of a new yeast plant in Canada,

(1) *Transcript*, pp. 183-4, 235-6; ADT., *Transcript*, pp. 81-2.

(2) The two subsidiaries are Chocolate Products Ltd., which supplies dairies, vending machine operators and other outlets with flavoured drink crystals; and McNair Products Co. Ltd., which imports food items for processing, packaging and distribution through retail channels (*Transcript*, p. 245).

(3) Rose & Laflamme Ltd., supply the bakery, ice-cream and confectionery trades with processed food ingredients. The other Montreal subsidiary is Watt & Scott Ltd., which imports nutmeats, dried fruits and comparable items for processing and subsequent distribution to industrial users and retail outlets (*ibid.*).

(4) George Weston Limited, *Annual Report*, 1975.

(5) *Transcript*, pp. 245-6, 254, 272.

(6) *Ibid.*, pp. 238-9; ADT., *Transcript*, pp. 119, 184.

and in this connection a company was incorporated and an option was taken on a factory site in Toronto. It appears that the purpose of this proposed plant was to produce bakers' yeast not only for the Canadian market but also for export to the United States. However, in the event, the project did not proceed, it being apparently decided instead to expand Anheuser-Busch's yeast-making capacity in the United States.⁽¹⁾

Anheuser-Busch Inc.

The United States supplier, Anheuser-Busch Inc., is best known as the brewer and supplier of "Budweiser," "Michelob" and "Busch" beers. The corporation, however, has a number of subsidiary companies and engages in a wide variety of operations. Bakers' yeast is one of a line of products for the bakery industry which include liquid sweeteners, dry starches, dextrines, gums and corn syrups. Other activities include the manufacture of beer cans (this being a joint venture with Libby, McNeill & Libby); the operation of a professional baseball franchise (popularly known as the St. Louis Cardinals); the operation of various family entertainment facilities; real estate development; and the provision of transportation services.⁽²⁾ Total net sales by the corporation in 1976 amounted to \$1.44 billion,⁽³⁾ of which bakers' yeast accounted for perhaps 2-3 per cent.

Yeast is produced at three of the company's plants, these being located in St. Louis (Missouri), Old Bridge (New Jersey), and Bakersfield (California). The combined annual shipping capacity of the three yeast-producing facilities is approximately 154 million pounds - i.e., almost fourfold the entire Canadian market for fresh bakers' yeast. The largest of the plants, and also the principal source of yeast exports to Canada, is the facility at Old Bridge, N.J. This currently has an annual capacity of 70 million pounds,⁽⁴⁾ of which no more than 4 per cent has been used, to date, for the production of yeast for export to Canada.

However, Anheuser-Busch has plans to increase the capacity of the Old Bridge yeast plant to 100 million pounds per year, all of which, according to testimony given before the Anti-dumping Tribunal, has been scheduled with reference to projections of the United States market for yeast. The latter, it is claimed, has expanded very substantially since the mid-1960s, and Anheuser-Busch has been successful in gaining an increasing share of this growing total market. Clearly, the prospect of a substantial expansion in Anheuser-Busch's yeast-making capacity has been viewed with some concern, if not apprehension, by the two Canadian producers, who see in it a threat of further encroachment by Bowes Company Limited upon the Canadian domestic market for bakers' yeast.⁽⁵⁾

The Consumers

Not all purchasers of fresh bakers' yeast are commercial bakeries, although these appear to comprise the bulk of the market for the product. Yeast is also used, of course, in other industrial establishments which bake for their own requirements, such as restaurants, hotels and public institutions, as well as by chain and department stores which operate bakeries and merchandise the resulting products. Unfortunately, a precise identification and accounting of all such consumption cannot

(1) *Ibid.*, pp. 238-9; ADT., *Transcript*, pp. 14, 79-80.

(2) Moody's Investor's Service Inc., *Moody's Industrial Manual*, 1976, Vol. I, p. 106.

(3) Anheuser-Busch Incorporated, *Annual Report*, 1976.

(4) *Moody's Industrial Manual*, Vol. I, p. 106.

(5) ADT., *Transcript*, pp. 13-15, 128, 193.

Table 2: Shipments of Bakery Products by Establishments in S.I.C. 1072, Regional Distribution, 1975

Value of Shipments (\$'000)		Large Establishments (b)				
Yeast Products:						
Bread	36,931	114,195	173,458	51,464	29,725	405,773
Rolls and Buns	9,326	19,655	48,117	10,881	7,706	95,685
Others(c)	3,466	9,845	34,311	6,819	5,045	59,486
Total of above	49,723	143,695	255,886	69,164	42,476	560,944
Volume of Shipments ('000 lb.)						
Yeast Products:						
Bread	130,715 (d)	422,632	627,134	202,881 (d)	101,738	1,485,100
Rolls and Buns	20,404	46,068	109,212	30,656	20,976	227,316
Others(c)	..	..	..	..	..	..
Total of above	..	..	..	..	..	..
		All Establishments				
No. of Establishments	97	429	501	330	242	1,599
Total Value of Shipments (\$'000)	56,045	264,275	341,718	98,621	68,286	828,945
Average Value Per Establishment (\$'000)	577.8	616.0	682.1	298.9	282.2	518.4

(a) Includes the Northwest Territories and the Yukon.
 (b) These establishments accounted for approximately 87 per cent of industry shipments.
 (c) Includes doughnuts and sweet buns.
 (d) Figures for Saskatchewan are included in total for Atlantic Provinces.

Table 3: Bakery Establishments in Metropolitan and Other Areas, 1967 and 1972

	1967				1972			
	Metro- politan (a) Toronto	Metro- politan (a) Montreal	Other Metro- politan (a) Cities	Metro- politan (a) (b) Canada (a)	Metro- politan (c) Toronto	Metro- politan (c) Montreal	Other Metro- politan (c) Cities	Canada (a)
Number of Establishments	225	228	525	2,275	196	196	451	1,768
Value of Shipments (\$ M)	103.9	82.3	128.8	477.0	166.5	148.9	145.7	540.4
Average Shipment Per Establishment (\$'000)	461.7	361.1	245.3	209.7	849.6	759.6	322.9	305.6

(a) Bakery industry only.

(b) Includes only those cities for which data are available for both 1967 and 1972.

(c) Includes biscuit manufacturers and bakeries.

Source: Statistics Canada, Catalogue No. 31-209, *Manufacturing Industries of Canada: Geographical Distribution*.

be readily undertaken, since only establishments whose principal activity is the production of bakery goods for external sale are generally classified as "bakeries" in the official manufacturing statistics.⁽¹⁾

With respect to this "industry," the data reveal that in 1975 there were 1,599 bakery establishments in Canada; these had shipments valued at almost \$829 million, equivalent to an average of \$518,000 per establishment. The corresponding regional figures are given in Table 2, while data pertaining to metropolitan areas are featured in Table 3. In view of the claims made by the Canadian yeast producers with respect to the size and profitability of the Toronto market, it is noteworthy that in 1972 production of baked goods in Montreal was apparently almost as large as in Toronto and growing more rapidly. A presumption that most of the major bakeries in the country are located in one or other of these two metropolitan areas would seem to gain some support from the figures pertaining to the average value of shipments per establishment.

At the national level, in 1967, there were 2,275 bakery establishments; these had shipments valued at \$477 million, averaging \$210,000 per establishment. Compared with this situation, the position in 1975 represented a decrease of 30 per cent in the number of establishments and an increase (partly attributable to inflation) of 147 per cent in the average value of shipments per establishment. However, general observation suggests the probability that part of the above decrease in the number of bakeries was more apparent than real, some compensation being provided by a growth in the number of bakery establishments statistically classified to industrial sectors (e.g. supermarkets) other than S.I.C. 1072 ("Bakeries") to which the aforementioned figures pertain. On the other hand, to admit of this probability does not imply any basic undermining of the broad conclusion that the general trend in the bakery industry, as in many other spheres of economic activity, has been towards a reduction in the number of production units and an increase in average output per unit. Although still predominantly composed of small business enterprises, the bakery trade has nevertheless been caught up in the general thrust towards greater capitalization, larger scale, and automated operation.

In these respects, one of the most significant features has been the development of new dough-making systems in which the principal economic tendency has been towards a substitution of capital for labour. Not surprisingly, such systems have had little direct effect upon the operations of small and medium-size bakers in Canada, virtually all of whom continue to use the traditional "straight-dough" process, whereby all the ingredients used in the manufacture of bread (including yeast) are initially mixed together and allowed to ferment prior to scaling and baking.

By contrast, in the sponge dough process about two-thirds of the flour is mixed with yeast, yeast food and water to form a stiff mixture known as "sponge." This mixture is first fermented for a

(1) Also included in the official statistics on bakeries are those bakery operations of chain and department stores for which separate accounts are kept.

period of 4-5 hours and then returned to the mixer for a second "doughing up," at which time the balance of the flour, other enriching ingredients and more water are added. Thereafter, the processing is the same as for straight doughs.

A desire to improve upon the economics of the aforementioned dough-making systems led to the development in the United States in the 1950s of continuous mix (liquid brew) processes, embodying automation at an earlier stage than is possible with batch methods and sponge bread systems. Thus, instead of yeast being mixed directly with flour, water and other ingredients to make a dough, a broth of yeast, sugar and warm water is first fermented in a large brew tank and then pumped into a high-speed mixing machine where the flour and other ingredients are added prior to extrusion as a dough mass.⁽¹⁾ By 1971, about one-third of the bread consumed in the United States was being produced in this manner.⁽²⁾ However, the Canadian market has apparently been less willing to accept the resulting product and, reflecting this, continuous mix brew systems have not been widely adopted by domestic bakeries.

Instead, the main trend on the part of the larger Canadian bakeries has been towards the adoption of the so-called "no-time" dough system as an economically superior alternative to the sponge dough method. In the former process (which borrows heavily from the Chorleywood process developed in England), all the ingredients, including additional dough conditioners and higher yeast levels, are combined in the mixer just as in the production of ordinary straight dough. The additives serve to condition the wheat protein in a very short time, thus reducing the period of fermentation and making possible savings in labour and other costs. However, even though the older, more labour-intensive methods of making dough were being supplanted in the United States as early as the 1950s, no baker in Canada (according to information supplied to the Board) had automatic dough-making equipment before 1969. This adherence of Canadian bakeries to the more traditional bread-making systems had significant implications for the producers of yeast. As already mentioned,⁽³⁾ continuous mix processes give the best results in terms of effectiveness and efficiency when accelerated yeast, especially in fragmented or bulk form, is used, while this yeast is also generally preferred in the production of "no-time" dough. It is understood by the Board that while domestically-produced slow or regular yeast in 50-pound bags has been available in Canada since 1967, neither of the two Canadian producers regularly marketed an accelerated yeast, in either compressed or bulk form, prior to mid-1971.⁽⁴⁾ Earlier, going back to the 1950s and 1960s, attempts had been made by Lallemand to introduce accelerated yeast "on a small basis" but these had "failed miserably."⁽⁵⁾

Apart from the persistence of traditional dough-making methods, there was yet another reason why fast yeast - apparently introduced in the United States in the early 1920s⁽⁶⁾ - made such a belated appearance on the Canadian scene. Specifically, most domestic bakery establishments lacked adequate refrigerated storage facilities. This situation

(1) *Transcript, Appeal No. 952*, pp. 69-71.

(2) *Ibid.*, pp. 69-70; *Transcript*, p. 92.

(3) *Supra*, pp. 13-14.

(4) See *infra*, pp. 33, 37-8.

(5) ADT., *Transcript*, p. 155.

(6) *Ibid.*, p. 124.

was encouraged by, and also necessitated, frequent deliveries of yeast so that even the slow, comparatively stable, dual-culture product, with its better keeping qualities, was normally delivered to the bakeries two, three or more times per week.⁽¹⁾ Thus, the costs of distribution were very high.

In order to effect a reduction in such costs, while also permitting domestic bakeries to use the more volatile, faster-working yeast, the two Canadian producers sought by various means to encourage their customers to take delivery of up to two weeks' requirement at one time. In this regard, starting with Standard Brands Limited in 1969 and continuing into 1971, both yeast manufacturers provided financial assistance to selected (major) customers in connection with the installation of suitable refrigeration equipment.⁽²⁾ To further encourage the provision of refrigeration, the manufacturers' price-lists for yeast were revamped in September 1971 so that prices (and quantity discounts) became based upon single deliveries to individual locations and not upon total monthly purchases, as formerly.⁽³⁾

In recent years the bakery industry has undergone considerable technical transformation, much of which has been related directly or indirectly to yeast usage. The importance of yeast to the baking operation is well understood, but it is an importance which is not apparently reflected in terms of the relative volume or cost of yeast inputs. Thus, depending upon the particular dough-making process and the intended end-product, a baker might use between, say, $1\frac{1}{2}$ and 5 pounds of yeast to every 100 pounds of flour.⁽⁴⁾ When put into a monetary context, the relative contribution of yeast appears even less significant, amounting in 1975 to a mere 2.4 per cent of the cost of all materials and supplies purchased by larger bakery establishments and to 1.1 per cent of the value of shipments by these establishments.⁽⁵⁾

In the light of such considerations, it is, perhaps, not surprising that the Canadian yeast manufacturers' arguments for an increase in the rate of import duty (by 5 per cent, or a little over 1 cent per pound) should refer to the scarcely perceptible effect which this would presumably have upon the price of bread.⁽⁶⁾ However, to a bakery purchasing 20,000 pounds of yeast a week, a price increase of 1 cent per pound represents additional costs of \$10,400 per year, a not inconsiderable sum. Moreover, when all such additional sums, for all purchases of fresh bakers' yeast, are totalled together, they translate into a very sizable \$400,000 of added bakery costs, or - seen from the opposite standpoint - they translate into an extra \$400,000 of gross income for the suppliers.

(1) *Ibid.*, pp. 155-6; *Transcript*, p. 294.

(2) *Transcript*, pp. 83-6; ADT., *Transcript*, p. 154.

(3) ADT., *Transcript*, pp. 153-4; *Transcript*, pp. 296-7.

(4) See *infra*, p. 33.

(5) See Statistics Canada, Catalogue No. 32-203, *Bakeries*, 1975.

(6) *Transcript*, pp. 177, 300-1, 313, 316.

CHAPTER IV: DOMESTIC MARKET FOR YEAST AND IMPORT PENETRATION

Demand Considerations

Traditionally, the usage of yeast is tied closely to the consumption of bread. In the western world, bread is, of course, the most basic of all foodstuffs, accounting for a relatively high proportion of consumer expenditure in poor economies and a much lower proportion in affluent societies. At a certain stage of economic development, consumption of bread is likely to fall, not only relatively but absolutely, since there is a limit to the amount of food which people can eat, and the normal tendency is to curtail the intake of less exciting starch staples in favour of more expensive, protein-rich foods.

In seeking to verify the prevalence of such a tendency in Canada with respect to the consumption of bread, it would seem acceptable to disregard net external trade movements in relation to this commodity since imports and exports of bread each currently amount to well under 1 per cent of domestic industry shipments measured in volume or value terms.⁽¹⁾ Accordingly, for present purposes, it would seem sufficient to equate domestic consumption of bread with the domestic production thereof. However, in this regard the incomplete nature of published production statistics poses some problems, and the estimates of bakery shipments contained in Table 4 make no allowance for the activities of bakery establishments classified outside S.I.C. 1072 to the merchandising and service sectors. Moreover, as a result of the development of supermarket chains and the increasing popularity of eating out, such activities have probably gained in relative importance in recent years.

Thus, the figures presented in Table 4 not only underestimate total bread-making activity in Canada but also probably exaggerate the extent of any decline therein indicated. However, in the absence of anything more comprehensive, these data can, perhaps, be accepted as providing a reasonable approximation of general trends.

Referring to these figures, it will be noted that total shipments of bread by establishments in the bakery industry (S.I.C. 1072) declined from 1,733 million pounds in 1966 to 1,667 million pounds in 1975, or by an average of 0.4 per cent per annum. Since, at the same time, population was growing, the decline in per capita terms was even greater, with industry shipments per head falling from 91.0 pounds in 1961 to 86.6 pounds in 1966, and to 73.1 pounds in 1975. Surprisingly, however, the consumption of yeast by establishments in the bakery industry, instead of declining in line with bread production, actually increased from 28.3 million pounds in 1966 to 35.2 million pounds in 1975.

This apparent anomaly can be partly explained in terms of an expansion in the production of other yeast-raised products, such as rolls, buns and doughnuts. Information relating to the volume of such goods produced in Canada prior to 1973 is not available. However, in 1975 they accounted for approximately 28 per cent of the value of yeast-raised goods produced by the larger establishments in S.I.C. 1072 and for probably a higher proportion of the corresponding output

(1) In 1976 imports of bread, except passover bread, under commodity class 6499-30 totalled 6,420,918 pounds, valued at \$2,536,000 (Statistics Canada, *Imports by Commodity and by Country, 1976, Canadian International Trade Classification*, p. 25). During the same year, exports of bread, rolls and buns, except sweet goods, under commodity class 64-09 totalled 5,170,342 pounds, valued at \$1,488,000 (Statistics Canada, Catalogue No. 65-004, *Exports by Commodities, December 1976*, p. 38).

Table 4: Estimated Domestic Consumption of Yeast and Shipments of Selected Bakery Products by Establishments in S.I.C. 1072, 1966-75

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Average 1966-75</u>
- Quantity -											
<u>Total Volume</u>											
Yeast Consumption ('000 lb.)	28,303	29,902	28,176	30,777	32,465	31,820	30,939	28,717	32,292	35,213	30,860
Bread Shipments (m. lb.)	1,733	1,765	1,752	1,720	1,747	1,633	1,670	1,672	1,682	1,667	1,704
<u>Volume Per Capita</u>											
Yeast Consumption (lb.)	1.41	1.47	1.36	1.47	1.52	1.48	1.42	1.30	1.44	1.54	1.44
Bread Shipments (lb.)	86.60	86.60	84.63	81.92	82.03	75.69	76.52	75.69	74.95	73.12	79.78
- Annual Percentage Change -											
<u>Total Volume</u>											
Yeast Consumption	-	+5.6	-5.8	+9.2	+5.5	-2.0	-2.8	-7.2	+12.4	+9.0	+2.5
Bread Shipments	-	-0.5	-0.7	-1.8	+1.6	-6.5	+2.3	+0.1	+0.6	-0.9	-0.4
<u>Volume Per Capita</u>											
Yeast Consumption	-	+4.3	-7.5	+8.1	+3.4	-2.6	-4.1	-8.5	+10.8	+6.9	+1.0
Bread Shipments	-	+0.0	-2.3	-3.2	+0.1	-7.7	+1.1	-1.1	-1.0	-2.4	-1.7
<u>Total Value of Shipments</u>											
Bread	-	+6.0	+0.9	+0.3	+5.1	+2.0	+4.8	+11.8	+21.5	+10.9	+7.0
Other Yeast-Raised Products (a)	-	+6.5	+11.4	-1.4	-	+8.8	+13.2	+16.3	+27.7	+13.5	+11.8

(a) Figures for the years 1966-69 cover all establishments in S.I.C. 1072; figures for the years after 1970 apply only to the larger establishments reporting detail.

Source: Statistics Canada, Catalogue No. 32-203, *Bakeries*; and Tariff Board estimates based upon published data.

of the industry's smaller producing units (see Table 5). In 1961 only 20 per cent of the yeast-raised goods produced by all establishments in S.I.C. 1072 fell into product categories other than bread. Thus, whereas (reflecting the impact of inflation) the value of the industry's bread shipments apparently increased by an annual average of 7.0 per cent between 1966 and 1975, the corresponding increase in the case of other yeast-raised goods was about 11.8 per cent.

Referring to Table 5, it is clear that the major growth in respect of these other products occurred in the production of plain rolls and buns, which are, of course, directly substitutable for bread and are closely identified with the trend towards convenience foods and the spread of fast-service retail food outlets dispensing hamburgers, "submarine" sandwiches and the like. It would also appear that such goods provide Canadian bakeries with a more profitable line of output than bread, judging by the fact that in 1975 large establishments in S.I.C. 1072 reported shipments of plain rolls and buns equivalent to 23.6 per cent of bread shipments in terms of value compared to 15.3 per cent in terms of volume.

However, coincidental with the various aforementioned changes in the volume and composition of bakery output, the consumption of yeast has been further affected by technical considerations pertaining to its utilization, especially in the period since 1971. As previously noted⁽¹⁾, it was not until mid-1971 that the two Canadian producers began to market the faster-acting, accelerated yeast, even though such a product had apparently been available in the United States since the early 1920s. However, by the end of 1974 the accelerated product was accounting for between two-thirds and three-quarters of the combined fresh yeast output of the two domestic manufacturers. As already indicated⁽²⁾ a smaller quantity of accelerated yeast than of regular yeast is required to achieve any given level of bakery output. Assuming a difference in effectiveness of 15 per cent (the most commonly quoted figure) the increasing usage of accelerated yeast should, therefore, have enabled establishments in S.I.C. 1072 to effect theoretical savings in yeast consumption of 3.0-3.5 million pounds per year by 1974-75.

However, other forces were also at work on the technical side, tending to compensate for this potential reduction in yeast consumption. Among such forces, probably the most significant in relation to the longer-term demand for yeast, has been the change in the ratio of yeast to flour occasioned by the introduction of new dough-making procedures. Thus, whereas (according to information supplied to the Board) conventional "straight" and "sponge" dough systems normally required $1\frac{1}{2}$ - $2\frac{1}{2}$ pounds of yeast for every 100 pounds of flour, the "no-time" and liquid brew dough-mix formulae now being used by some of the larger, more modern bakeries allow $2\frac{1}{2}$ -5 pounds of yeast per 100 pounds of flour.⁽³⁾ The increasing use of such formulae obviously augurs well for the longer-term outlook with respect to yeast sales.

Timing and Extent of Import Penetration

The figures of yeast consumption reported by establishments in the bakery industry are assumed to include imports as well as domestic production. Official data pertaining to the former are,

(1) *Supra*, p. 29.

(2) *Supra*, p. 14.

(3) See also *Transcript*, p. 92; ADT., *Transcript*, p. 128.

Table 5: Value of Shipments of Yeast-Raised Products by Establishments in S.I.C. 1072, 1961-75

Year	Plain Rolls and Buns		Fruit Buns, Yeast-Raised Sweet Goods		Total	- \$ '000 -				
	Bread		Doughnuts			All Establishments				
1961	219,091	22,332	17,516	14,834	273,773	80.0	8.2	6.4	5.4	100.0
1966	250,982	37,127	18,439	20,145	326,693	76.8	11.3	5.6	6.2	100.0
1969	269,208	50,774	16,080	21,693	357,755	75.2	14.2	4.5	6.1	100.0
							Large Establishments			
1970	252,179	45,234	12,358	17,218	326,989	77.1	13.8	3.8	5.3	100.0
1972	269,569	56,298	15,294	20,497	361,658	74.5	15.6	4.2	5.7	100.0
1974	366,036	80,676	29,548	26,524	502,784	72.8	16.0	5.9	5.3	100.0
1975	405,773	95,685	29,787	29,699	560,944	72.3	17.1	5.3	5.3	100.0

Source: Statistics Canada, Catalogue No. 32-203, *Bakeries*; and Tariff Board estimates based upon published data.

unfortunately, not well defined, although it seems clear that most of the fresh bakers' yeast admitted into Canada in recent years has involved shipments from Anheuser-Busch's plant in New Jersey to Bowes Company Limited in Toronto. However, a sampling of the pertinent import documentation also indicates occasional (generally smaller) shipments being made by other suppliers to other importers situated elsewhere in Canada.

The interpretation of data pertaining to yeast imports poses a number of problems. In the first place, official statistics of imports by tariff item are available only on the basis of value, and thus underlying volume movements may be masked by the impact of inflation. Secondly, both the nomenclature and classification of the principal tariff items treated in the present study have been subject to change during the period under review, while the pertinent rates of duty have also been affected. These developments obviously increase the ever-present possibility of commodity mis-classification, and underline the need for especially careful judgement in the use of the available data. In particular, the highly perishable nature of fresh bakers' yeast suggests the improbability of this product - as opposed, for example, to active dry yeast - being imported into Canada from countries other than the United States.

The data presented in Table 6, therefore, pertain only to imports under tariff items 3600-1, 3700-1 and 3805-1 from the United States. Even so, there seems reason to believe that the figures with respect to each of these items are inflated somewhat by the inclusion of yeast products other than fresh bakers' yeast. This is most certainly the case in regard to tariff item 3805-1, whose direct relevance in the present context is limited to the period between April 26, 1971 and May 8, 1972 - i.e. to the time span between the Tariff Board's ruling on Appeal No. 952 and the amendments to the Tariff Schedule consequent upon the 1972 Federal Budget.⁽¹⁾

However, in spite of these various considerations, and discounting the effects of inflation, the figures presented in Table 6 may be taken as providing a general indication of the main underlying tendencies in regard to the importation of fresh bakers' yeast. On the basis of these data and referring also to Table 4, it may be stated categorically that at no time during the past decade have imports of such yeast accounted for a very significant share of the overall Canadian market. Even at their peak (in 1974-75) imports of moist yeast could not have exceeded 8 per cent of total domestic consumption in volume terms.

Table 6: Imports of Yeast from the United States, 1968-1977

Tariff Item(a)	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
	- \$'000 -									
3600-1	9	21	22	38	270	333	436	528	288	315
3700-1(b)}										
3805-1(c)	250	176	260	<u>308</u>	<u>285</u>	278	223	294	362	647

(a) For a description of these items, see *supra*, pp. 1, 7.

(b) Item struck out May 8, 1972.

(c) Apparently excludes fresh bakers' yeast except for the period April 26, 1971 - May 8, 1972.

Source: Statistics Canada, Computer Print-Out, *Imports by Tariff Item*.

(1) See *supra*, pp. 7-8.

It will be noted that such imports appear to have grown most rapidly in the period 1971-72 and, in fact, from the evidence submitted to the Board it is clear that importations by Bowes Company Limited did not begin on a regular basis until March 1971 and, even then, remained negligible until towards the end of the same year.⁽¹⁾ It also emerges that, in its initial stages, the ensuing expansion in imports occurred at a time when the total domestic consumption of bakers' yeast was apparently contracting (see Table 4); indeed, Bowes' imports, being of the more economical, faster-acting yeast, presumably contributed to this contraction. Thus, the domestic manufacturers of yeast were obtaining a declining share of a declining market. After 1972, the absolute position of the Canadian producers began to improve, although their share of the market apparently continued to decrease (although not very substantially) until 1975. Subsequently, imports have tended to diminish, the value of live yeast shipments from the United States in 1977 (at \$315,000) being little more than half that in 1975 (\$528,000).

Competitive Factors

In tracing the aforementioned developments, several areas of inquiry come to mind. First, there is the matter of the time lag of almost two years between Bowes' initial importation in December 1969 and the beginning of substantial imports by the company on a regular basis. Secondly, there is an obvious need to explain the sales success subsequently achieved by Bowes with particular reference to the Toronto market. Thirdly, and conversely, there is the apparent inability of Bowes to parallel this success in other parts of Canada or, indeed (as the recent decline in imports would seem to indicate), to retain all the ground thus gained in the Toronto area.

With reference to the first of these issues the initial point to note is that the yeast imported by Bowes Company Limited has been of the fast-acting, accelerated type. As previously indicated⁽²⁾, such yeast requires especially careful handling and rigidly controlled temperature conditions. However, as also mentioned,⁽³⁾ at the time of Bowes' initial importation, few Canadian bakeries possessed adequate refrigeration facilities and accelerated yeast was not generally sold in the domestic market. Accordingly, the efforts made by Standard Brands Limited and Lallemand Inc., in 1969-71 to reduce distribution costs, accomplished not only this objective, but - by encouraging the installation of refrigeration equipment in bakery premises - also made possible, the more widespread usage of Anheuser-Busch yeast in Canadian bakeries.

This growth was further stimulated by a combination of cost and price considerations which for a time gave Bowes a competitive edge over its rivals in the Toronto market. The Canadian producers had customarily maintained a margin of approximately 3 cents per pound between their yeast prices and the corresponding prices in the United States. This no longer proved possible. In the first place, the Tariff Board's ruling on April 26, 1971 with respect to Appeal No. 952 meant a reduction in the landed cost of bagged yeast of approximately 1 cent per pound. This obviously increased the capability of Bowes Company Limited to provide effective competition. Nevertheless, a few months later, the Canadian producers, in introducing their

(1) *Transcript*, pp. 296-7.

(2) *Supra*, p. 14.

(3) *Supra*, pp. 29-30.

present pricing system, based upon single deliveries of yeast, decided to raise their yeast prices by 1 cent per pound, purportedly on account of increasing costs. Bowes, whose costs had not increased, declined to follow suit. Subsequently, as a result of the tariff reclassification of May 1972, the import duty on bagged yeast was slightly increased (from 10 p.c. to 12½ p.c.). However, the same reclassification also made it more advantageous than formerly to import compressed yeast in block form, the relevant rate of duty being reduced from 5 cents per pound (or approximately 34 p.c. at current import values) to 12½ p.c. (or 1.8 cents per pound).⁽¹⁾ Thus, Bowes was well placed from a cost and price standpoint to exploit a market situation where other factors were also tending to favour the importer.

Not only were the Toronto bakeries able to purchase the Anheuser-Busch yeast at lower unit prices than they could buy Canadian yeast, but the imported product was also more economical to use than the regular yeast to which they were accustomed. Although the Canadian producers began marketing their own brands of accelerated yeast in Ontario and Quebec in mid-1971, they had, by their own admissions, been prodded into doing so earlier than they had intended, and the balance of evidence (including that derived from the Board's survey of users) tends to suggest that, at first, the imported product may have been somewhat superior in performance or keeping quality to the accelerated yeast marketed by one, if not both, of the domestic manufacturers.⁽²⁾

Initially, Bowes' sales of yeast had been to small and medium-sized bakery establishments, whose dough systems were not well suited to the use of such a volatile product. Now, however, some of the larger bakery concerns began to show interest, and in October 1971 a leading Canadian bakery started using Anheuser-Busch yeast in several of its plants.⁽³⁾ This marked a major breakthrough for Bowes, providing the importing company with the sales volume it needed to obtain substantial (volume) price-discounts on its own purchases. At the same time, the increasingly widespread installation of suitable refrigeration equipment now served to encourage more and more bakeries to switch to accelerated yeast, domestic or imported.

In the Toronto market area use of the Anheuser-Busch product was fostered, not only by the developments outlined above, but also by Bowes' position as a major supplier of ingredients to the bakery trade. Operating a daily service with refrigerated trucks in and about Toronto, this company has been well placed to provide "very serious competition" to Canadian yeast producers "on a service basis."⁽⁴⁾ Further, in building up its yeast business in 1972-73, Bowes was fortunate in being able to draw upon the market knowledge and contacts of sales personnel previously employed by Lallemand, Inc., prior to that company's rationalization of its distribution network.⁽⁵⁾

The encroachment by Bowes upon their traditional market preserves evoked several responses on the part of the Canadian yeast manufacturers. One response, as already indicated, was to hasten the introduction of Canadian brands of accelerated yeast, initially in Ontario and Quebec and then - once Standard Brands had begun commercial production in its Calgary and Liverpool plants - in the rest of the country.⁽⁶⁾ Acceptance by the Canadian bakeries was rapid; indeed, by

(1) See *supra*, p. 8; see also *Transcript*, pp. 297-8; ADT., *Transcript*, pp. 50-2, 157.

(2) *Transcript*, pp. 92, 255-6, 296-7, 304-5.

(3) *Ibid.*, pp. 256-8, 297.

(4) ADT., *Transcript*, p. 184.

(5) *Ibid.*, pp. 62, 121-2, 184; *Transcript*, p. 287.

(6) ADT., *Transcript*, pp. 99-100.

the end of 1972 the domestic industry was already selling more accelerated yeast than regular yeast. The domestic manufacturers' price-lists did not differentiate between the two types of yeast even though the faster-acting product made by Standard Brands using conventional methods was about 5 per cent more expensive to produce.⁽¹⁾ Growth continued apace, so that by 1974 more than 90 per cent of Lallemand's output of fresh bakers' yeast was of the accelerated variety, while the corresponding proportion in the case of Standard Brands was about 60 per cent. Use of this type of yeast, however, continued to be confined mainly to the large and medium-sized bakeries, most of the many small bakers still preferring to use the well-established product. Thus, more than 87 per cent of Standard Brand's individual yeast accounts in 1974 were with purchasers of the company's slower-acting product.⁽²⁾

With respect to the quality and performance of the Canadian accelerated yeasts, whatever difficulties may have been experienced initially had apparently been ironed out by 1974, when - Bowes' formal submission to the Board⁽³⁾ notwithstanding - spokesmen for the importer were prepared to concede that the faster yeasts produced by Standard Brands Limited and Lallemand Inc., were closely comparable to the yeast exported to Canada by Anheuser-Busch Inc. Indeed, according to testimony given before the Board on behalf of the smaller of the Canadian producers, analyses conducted by an independent testing laboratory as early as 1972 had indicated no significant differences in fermenting power between Lallemand's fast-acting yeast and the Anheuser-Busch product when compared either in a fresh condition or after storage.⁽⁴⁾

At the same time as the Canadian producers were shifting their lines of output, loss of sales in the Toronto area was pointing to the need for lower prices. In an attempt to meet the new competition, both Standard Brands Limited and Lallemand Inc. introduced a price rebate scheme in January 1972 for their larger customers, with rebates ranging between $\frac{1}{2}$ cent and $1\frac{1}{2}$ cents per pound, depending upon the volume of yeast purchased. In November 1972 this selective rebate arrangement was replaced by a general reduction in list prices of approximately 15 per cent. Prior to this decrease the imported product was reportedly selling at about 1 cent per pound less than the home-produced yeasts.⁽⁵⁾ Subsequently, it appears that for the most part, the prices charged by the importer and by the domestic producers have not diverged significantly. However, the Board has not seen any price-lists put out by Bowes, while the existence of price-lists does not, of course, preclude the making of special price agreements with selected customers.⁽⁶⁾

Be that as it may, on the basis of data made available to the Board, it would seem that since November 1972 yeast prices in Canada have closely reflected those in the United States. Indeed, assuming

(1) See *supra*, p. 15.

(2) *Transcript*, pp. 81, 149-50, 300-1.

(3) This contains a statement that if the tariff on fresh bakers' yeast were to be increased "a superior strain of yeast would be rendered unavailable to the Canadian bakery industry and the consuming public."

(4) *Ibid.*, pp. 255-6, 305-6.

(5) *Ibid.*, pp. 185, 216, 241; ADT., *Transcript*, pp. 9, 51.

(6) See *supra*, p. 20 ; ADT., *Transcript*, *passim*. A number of the users responding to the Board's survey questionnaire indicated purchase prices below those shown on price-lists.

dollar parity and allowing time for the transmission of price changes across the border, it appears that between early 1973 and late 1974 (i.e. during the period of most frequent price adjustment), yeast prices in the two countries were identical on a comparable sales volume basis.

The lowest published user list prices circulated by the two Canadian producers during recent years are indicated in Table 7. In general, the price changes therein depicted appear to have followed closely upon the institution of similar changes by American yeast producers with respect to the United States market. The Board's knowledge of yeast price movements in the United States is derived from the price-lists of an American producer other than Anheuser-Busch Inc.; however, the common pricing policy pursued by yeast suppliers in the North American market makes it reasonable to conclude that the prices listed by Anheuser-Busch were essentially the same as those indicated in Table 7, at least over the critical middle part of the period specified. Consequently, by deducting the normal jobber discount of 10 percent⁽¹⁾ it should be possible to arrive at this U.S. yeast manufacturer's usual minimum selling price to domestic wholesalers in the United States. Thus, referring to Table 7, the lowest such price in late December 1974 (for bulk yeast in 50-pound bags delivered in quantities of 7,500 pounds or more) would have been 21.6 U.S. cents per pound (i.e. 24.0 cents less 2.4 cents).

Table 7: Lowest User List Prices for Fresh Bakers' Yeast in the Canadian Market^(a)

<u>Cents Per Pound</u>	<u>Effective Dates</u>	
	<u>Standard Brands</u>	<u>Lallemand</u>
18 $\frac{1}{2}$	Apr. 1, 1969	Apr. 15, 1969
17 $\frac{3}{4}$	May 3, 1971	May 3, 1971
18 $\frac{3}{4}$	Sept. 7, 1971	Sept. 13, 1971
17 $\frac{1}{4}$ (b)	Feb. 7, 1972	Jan. 10, 1972
15 $\frac{3}{4}$	Nov. 13, 1972	Nov. 13, 1972
16 $\frac{1}{4}$	Apr. 16, 1973	May 7, 1973
17 $\frac{1}{4}$	Nov. 19, 1973	Nov. 26, 1973
18 $\frac{1}{2}$	Jan. 28, 1974	Feb. 4, 1974
19 $\frac{1}{2}$	Mar. 7, 1974	Mar. 18, 1974
21	June 10, 1974	June 17, 1974
22 $\frac{1}{2}$	Oct. 7, 1974	Oct. 14, 1974
24	Dec. 2, 1974	Dec. 2, 1974
23 $\frac{1}{2}$	May 18, 1976	May 18, 1976
25	Jan. 3, 1977	Jan. 10, 1977

(a) Refers to single deliveries of bulk yeast in 50-pound bags in quantities of 7,500 pounds or more.

(b) Allowing maximum rebate of 1 $\frac{1}{2}$ cents per pound.

(1) See *supra*, p. 17.

Accordingly, imports by Bowes Company Limited (or any other Canadian importer) at less than these wholesale prices (i.e. at less than 10 per cent under list prices) would have constituted dumping under section 9 of the Anti-dumping Act. As noted earlier⁽¹⁾ such dumping of live bakers' yeast by Anheuser-Busch Inc. was, in fact, identified by the Deputy Minister of National Revenue with particular reference to the period May 1, 1975 to August 31, 1975. However, by virtue of the Anti-dumping Tribunal's finding of 'no material injury' to Canadian producers, such imports are permitted entry without the imposition of an anti-dumping duty, it being merely incumbent upon the exporter (as upon any exporter) to declare the 'fair market value' of the goods in question for normal duty purposes.

Another feature of Table 7 which calls for comment is the rapid escalation of prices which occurred between mid-April 1973 and early December 1974. During this 21-month period, published yeast prices in Canada increased from 15 $\frac{3}{4}$ to 24 cents per pound, or by 52 per cent. This upsurge in prices was all the more noteworthy in that it occurred after a decade of comparative stability in which minimum list prices for Canadian-produced yeast had ranged between 16 and 18 $\frac{1}{4}$ cents per pound.

It has already been remarked,⁽²⁾ that Canadian experience in regard to the more recent (post-1972) movement in yeast prices has closely reflected that in the United States. With respect to the latter, it would seem apparent that the economic stabilization measures instituted in that country in August 1971 and continuing until April 1974, were not particularly effective in keeping down the price of fresh bakers' yeast. Part of the explanation of this would seem to lie in the importation of higher costs in the form of higher prices paid for offshore material supplies. In particular, world shortages of sugar in the early 1970s combined with increases in the demand for animal feeds,⁽³⁾ were reflected in a rapid escalation in the prices of beet and cane molasses, the principal nutrient medium in yeast-making. Smaller, though generally significant, increases were recorded in the cost of most other inputs.

Moreover, substantial though the increase in factory costs undoubtedly was, it seems clear that it would have been even larger had it not been for the cost-reducing measures instituted by the Canadian producers. The need for such measures had been painfully underlined by the enforced decrease in list prices of 15 per cent implemented in November 1972.⁽⁴⁾ Even before this date, however, the domestic manufacturers had begun to rationalize their operations, most notably with respect to the industry's outmoded and inefficient system of distribution. In this regard, substantial economies in transportation, warehousing and invoicing were achieved as a result of the reduction in the number of deliveries to customers consequent upon the adoption of the single-delivery pricing policy and the more widespread installation of refrigeration facilities on yeast users' premises. However, these measures, by encouraging the movement of customers from a lower to a higher (more economical) volume bracket, also served to hold down the average gross return per unit of sales. Increasing concentration in the bakery industry⁽⁵⁾ presumably further strengthened this tendency. Thus, in spite of substantially higher list prices, the average price per pound of Canadian-produced fresh bakers' yeast sold in 1974 was only 8 per cent greater than that in 1971.

(1) *Supra*, pp. 8-9.

(2) *Supra*, p. 39.

(3) Molasses is used in the production of animal feeds (see *Transcript*, pp. 102, 240.)

(4) See *supra*, p. 38.

(5) See *supra*, p. 28.

In the case of Lallemand Inc., the distribution network was further radically streamlined by the shedding of the major part of the company's non-yeast business following the disposal of its food products plant in June, 1972.⁽¹⁾ Voluntary wage restraints by this company's employees accompanied a sizeable decrease in the number of employees, mainly on the food products side.⁽²⁾ More specifically in connection with the manufacture of yeast, research activity was curtailed, while capital investment in production facilities was postponed due to lack of finance.⁽³⁾ The latter was patently less of a restricting influence at the LaSalle factory of Standard Brands Limited, where investment in new plant between 1970 and 1973 served to reduce the down time between fermentations and to increase the live fresh yeast fermentation capacity by over 10 per cent. At the same time, both Canadian producers stepped up the manufacture of active dry yeast, notably for export⁽⁴⁾, thus moderating the rise in unit overhead costs. Hence, the producers' utilization of plant capacity (on a basis of three shifts per day, six days a week, 52 weeks a year) averaged more than 85 per cent in 1974.⁽⁵⁾

By this time the Canadian producers had consolidated their share of a national market which, after the drop of 1971-73, was apparently growing in volume terms (in 1973-74) at a rate of over 12 per cent per annum.⁽⁶⁾ As reported by the Anti-dumping Tribunal⁽⁷⁾, and as is also evident from Table 4, this expansion (though seemingly at a reduced rate) continued well into 1975 - and probably, beyond. Accordingly, it now became feasible for Lallemand to increase its yeast-producing capacity, while at the LaSalle plant of Standard Brands Limited the manufacture of dry yeast was reduced. Already in 1974, Lallemand had surpassed its previous highest annual output of fresh bakers' yeast and its level of earnings with respect to operations in financial years ending January 31, 1975 and 1976 showed a substantial improvement over earlier years. This latter outcome obviously reflected the series of yeast price increases in 1974, as well as the rising sales volume. Also contributing to the favourable financial picture in 1975 was a decline in the price of molasses, permitting a reduction in the material cost per pound of yeast.⁽⁸⁾ At the same time the inflationary rise in yeast prices was halted. Indeed, as indicated in Table 7, a reduction of $\frac{1}{2}$ cent per pound was put into effect in May 1976, lasting until January 1977, when the minimum list price for bulk yeast sold in Canada was raised to 25 cents per pound.

During the period covered by these developments, sales of fresh bakers' yeast by Bowes Company Limited continued to be confined essentially to the Toronto area. According to testimony given before the Board, the importer has made a number of attempts to broaden the geographical scope of his yeast-marketing operations but (at least up to the end of 1975) with a notable lack of success.

From the importer's standpoint, Toronto possesses special advantages as a centre for the distribution of live bakers' yeast. These include: firstly, the ability of the company to provide from within the framework of its normal operations both refrigerated

(1) See *supra*, p. 23.

(2) In 1974 a combined total of approximately 185 workers were employed by the two Canadian manufacturers exclusively in the production and distribution of yeast. (*Transcript*, pp. 72-3, 188).

(3) *Ibid.*, pp. 185-6.

(4) See *supra*, pp. 22-24.

(5) Anti-dumping Tribunal, *Finding*, p. 8; ADT., *Transcript*, pp. 67-8.

(6) See *supra*, p. 32, Table 4.

(7) *Finding*, p. 8.

(8) ADT., *Transcript*, pp. 64-6, 101-2, 185-6; *Transcript*, pp. 240-1.

storage and refrigerated transport; and secondly, a local market large enough to permit the importer to take regular delivery of full (40,000-pound) truckloads of yeast at top discount prices. Even so, the Board was informed that Bowes had not been able to "afford under the pricing structure to ship yeast very far from Toronto."⁽¹⁾

Although Bowes operates branches in Winnipeg, Calgary and Vancouver, none of these (except possibly that in Winnipeg) is seemingly well equipped from a refrigeration standpoint for the distribution of yeast.⁽²⁾ More fundamentally, in western Canada the market for yeast is much less concentrated than in southern Ontario and there are few large bakeries to provide the economic base for a viable distribution operation. At one time, prior to 1975, Bowes had begun importing small quantities of Red Star yeast into Vancouver, but this trade was subsequently allowed to peter out. Attempts by Bowes to penetrate the Montreal market, the home territory of both Standard Brands and Lallemand, likewise came to nothing.⁽³⁾

On a more general level, these various considerations have seemingly been reinforced by the reluctance of some of the larger bakeries to make purchases from Bowes in recent years in view of this company's absorption in 1972 by George Weston Limited, a major competitor in the bakery field.⁽⁴⁾ In any event, some bakers do not like to be tied to a single supplier, and in Toronto there are bakers who purchase yeast from both Canadian yeast producers and the principal importer.⁽⁵⁾

(1) *Transcript*, pp. 270-2, 284.

(2) *Ibid.*, p. 308.

(3) *Ibid.*, pp. 270-1, 284.

(4) *Ibid.*, pp. 262, 271; see also *supra*, p. 23.

(5) *Ibid.*, p. 258; Tariff Board survey of users.

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The Canadian yeast industry has passed through a difficult period of adjustment during the 1970s, with imports becoming a significant factor in relation to the market in central Ontario. A variety of considerations have apparently contributed towards this situation. Initially, the installation of refrigeration facilities on the premises of certain larger bakeries (actively assisted in some instances by the domestic yeast producers in connection with their own efforts to reduce distribution costs) helped open up the Canadian market to the importation and use of accelerated yeast, which requires careful handling and strict temperature control. At the same time, the use of such yeast was favoured by the development of new dough-making systems.

Bowes Company Limited, the principal importer of fresh bakers' yeast has been well placed to take advantage of these developments. As a well-established distributor of industrial food products to the bakery industry, the company possesses extensive market knowledge and contacts in the Ontario market area (among others) as well as refrigerated trucking equipment. For a time, in 1971-72, these advantages were further enhanced by various cost and price considerations which gave the importer a competitive edge over the domestic yeast manufacturers in relation to the Toronto market area.

The threat to their business apparently spurred the Canadian producers in their efforts both to become more efficient and also to obtain market acceptance of their own brands of accelerated yeast in competition with the Anheuser-Busch product imported by Bowes. From the evidence, it appears that the domestic manufacturers have broadly succeeded in achieving these aims. Indeed, imports of fresh bakers' yeast, while remaining a significant element in the Ontario market, appear to have peaked in 1975 and presently comprise less than 5 per cent of the overall Canadian market. Moreover, this market, after contracting in the early 1970s, now seems set on an expansionary phase of development, and the level of profitability enjoyed by Canadian yeast producers appears to have substantially improved over earlier years.

It seems to the Board, therefore, that there is no indication of continuing serious injury to Canadian producers attributable to yeast importation. The effect of the surge in imports has no doubt served to jog the industry into speedy and, perhaps, overdue restructuring, rationalization and development. The closure of Standard Brands' high-cost yeast facility at Liverpool may be regarded as a regrettable, but perhaps unavoidable, casualty in the process of forging a stronger Canadian industry.

This generally improved picture needs to be qualified in some degree. Thus, although both Standard Brands and Lallemand have apparently placed themselves in a stronger competitive position than in 1971-73, there are, nevertheless, larger and seemingly more efficient producers of bakers' yeast in the United States within reach of the Canadian market. While the productivity gap in relation to these

producers may well have narrowed during the past few years, there is no reason to believe that it has been completely eliminated. While slippage of the Canadian dollar is now serving to provide an additional measure of protection to the domestic manufacturers, this is not, in the Board's view, a factor to be relied upon in relation to the longer term. Given the entrenched position of the principal importer, it seems likely that the yeast needs of some portion of the bakery industry in Ontario will continue to be met by imports and that, depending on market conditions, bakeries in other regions might likewise be supplied from time to time.

However, in the Board's view, given the present apparently buoyant state of the industry, its improved competitive position and the relatively low level of import penetration, there appears to be no justification for a tariff increase, either to 17½ p.c. M.F.N. or, indeed, to any other level. At the same time, however, in the light of established dumping in the Canadian market by the principal foreign supplier, and the likelihood that a productivity gap persists between Canadian and American producers, the Board is equally disinclined to recommend a lowering of the tariff at this time.

In the Board's view, there is no longer any sound reason from a tariff standpoint for distinguishing between live yeast in bulk or mass of not less than 50 pounds and yeast in smaller packages or blocks. It is felt that all imports of live fresh yeast should carry the same rates of duty levied on a simple ad valorem basis, and that the proviso in the existing Schedule imposing a ceiling of 2½ cents per pound in the case of bulk yeast should cease to apply.

On the subject of nomenclature, the Board accepts the opinion of the Canadian producers that the existing commodity description under tariff item 3600-1 is fundamentally acceptable and that the Brussels (1) Tariff Nomenclature does not provide a more appropriate alternative.

The Board has also taken cognizance of the suggestion made by Lallemand Inc. that tariff item 3800-1, pertaining to yeast cakes, should be cancelled on account of its obsolescence. (2) It appears that imports under this item during the period 1966-77 averaged approximately \$28,000 per year, (3) so that elimination of the item should not result in undue problems.

Recommendations

The Board recommends:

That Schedule "A" to the Customs Tariff be amended by striking out tariff items 3600-1 and 3800-1 and the enumeration of goods and the rates of duty set out opposite each of these items, and by inserting therein the following items, enumeration of goods and rates of duty:

(1) *Transcript*, pp. 25, 29-31, 323-5.

(2) *Ibid.*, p. 173.

(3) Statistics Canada, Computer Print-Out, *Imports by Tariff Item*.

<u>British</u> <u>Perfer-</u> <u>ential</u> <u>Tariff</u>	<u>Most-</u> <u>Favoured-</u> <u>Nation</u> <u>Tariff</u>	<u>General</u> <u>Tariff</u>
--	--	---------------------------------

Yeast live or active, with
a moisture content of not
less than fifteen per cent,
but not including liquid
yeast

Free

12½ p.c.

25 p.c.

Wm. T. Deachman
Member

A. C. Quinn
Member

May 1, 1978

CAI
FN 55
-78RS4



CANADA

EDIBLE OIL PRODUCTS

REFERENCE

154

A REPORT OF
THE TARIFF BOARD

REFERENCE No. 154

A REPORT OF AN INQUIRY
by the
TARIFF BOARD
on
EDIBLE OIL PRODUCTS

This report, made pursuant to an order by the Minister of Finance and signed by the Board on September 30, 1978, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.

© Minister of Supply and Services Canada 1978

Available by mail from

Printing and Publishing
Supply and Services Canada
Hull, Québec, Canada K1A 0S9

or through your bookseller.

Catalogue No. FT4-154
ISBN 0-660-10116-5

Canada: \$2.50
Other countries: \$3.00

Price subject to change without notice.

THE TARIFF BOARD

CHAIRMAN

Pamela A. McDougall

FIRST VICE-CHAIRMAN

W. J. Landreth

SECOND VICE-CHAIRMAN

J. Lupien

MEMBERS

G. Deachman

A. C. Kilbank

K. C. Martin

J. Bertrand

DIRECTOR OF RESEARCH

W. L. Posthumus

PANEL FOR THIS INQUIRY

L. E. Couillard (retired)

W. J. Landreth

A. C. Kilbank

K. C. Martin

ECONOMISTS

Dr. P. J. Bowden

G. N. Grant

**Ottawa
K1A 0G7**

Explanation of Symbols Used

- Zero or none reported
 - .. Figures not available
 - X Figures confidential
-

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Terms of Reference	1
Submissions to the Board	2
Other Sources of Information	5
THE PROCESSES AND PRODUCTS OF THE EDIBLE OILS INDUSTRY	7
Definition and Composition of Fats and Oils	7
Types of Edible Fats and Oils	7
Processing of Edible Oils	8
Extraction	8
Initial Refining	8
Modification	10
Deodorization	12
Additives	12
Bulk Shipments, Final Processing and Packaging	13
STRUCTURE OF CANADIAN EDIBLE OILS INDUSTRY	14
COMMODITIES CLASSIFIED UNDER TARIFF ITEM 1305-1	16
Lard Compound and Similar Substances	16
Shortening	18
Characteristics of Recent Imports	20
THE DOMESTIC MARKET AND IMPORT PENETRATION	23
Import Trends	23
Domestic Consumption	27
Domestic Production	27
TARIFF CONSIDERATIONS	30
RECOMMENDED SCHEDULE	33

APPENDICES

I	Tariff History	35
II	Tariff Proposals of Institute of Edible Oil Foods and Existing Tariff Treatment	42

TABLE OF CONTENTS (concl.)

	<u>Page</u>
III Canadian Edible Oil Processors	43
IV Statistical Tables	45
1. Edible Oils and Fats: Percentage Distribution of Volume of Imports of Different Categories of Product Under Selected Tariff Items by Tariff Item. Average of Four Months, 1977	46
2. Edible Oils and Fats: Percentage Distribution of Volume of Imports Under Selected Tariff Items By Category of Product. Average of Four Months, 1977	48
3. Edible Oils and Fats: Average Cost Per Pound of Imports Under Selected Tariff Items, by Category of Product. Average of Four Months, 1977	49
4. Manufacturers' Sales of Shortening and Deodorized Shortening Oil, 1968-1977	50
5. Manufacturers' Sales of Margarine and Deodorized Margarine Oil, 1968-1977	50
6. Manufacturers' Sales of Deodorized Salad Oils, 1968-1977	51
7. Shipments of Lard and Tallow by Canadian Processors, 1968-1977	52
8. United States Wholesale and Retail Prices Per Pound for Selected Fats and Oils, 1966-1977	53

INTRODUCTION

Terms of Reference

The text of the letter from the Minister of Finance, dated December 27, 1974, directing the Tariff Board to conduct an inquiry respecting certain vegetable oil products such as vegetable oil shortenings, is as follows:

"As a result of the decision of the Exchequer Court in *Hunt Food Export Corporation of Canada Ltd. and Hunt-Wesson Foods of Canada Ltd. v. the Deputy Minister of National Revenue for Customs and Excise* (1970) 1 Ex. C.R. 828,⁽¹⁾ certain vegetable oil products such as vegetable oil shortenings were reclassified under tariff item 1305-1 at a rate of Customs duty of one cent per pound British Preferential and Most-Favoured Nation. They were previously dutiable at higher rates. The Government has received representations to the effect that the lower rate of duty which now applies to the products does not provide Canadian manufacturers with an adequate level of tariff protection. Representations have also been received requesting that the duty remain at the present level.

The problem to be resolved is what level of tariff protection is required to maintain Canadian production of these goods at a minimum cost to users. I am of the opinion that the Tariff Board is the appropriate body to consider this matter. I, therefore, direct the Tariff Board to make a study and report under section 4(2) of the Tariff Board Act on tariff item 1305-1 insofar as it relates to the products which are now classified under this item as a result of the Exchequer Court decision. The Board may, of course, include in its study other products classified under tariff item 1305-1 as well as such other tariff items it may consider relevant to this review.

If the Board's study should indicate that amendments to the Customs Tariff are desirable, I would request the Board to include in its report recommendations regarding such amendments."

(1) This case is reviewed *infra.*, pp. 17, 20-2. Briefly supplementing the information contained in the Minister's letter, it may be stated that prior to the Exchequer Court decision, goods entering under tariff item 1305-1 had been limited to blends of edible fats wholly or partly of animal origin. The Exchequer Court judgement upset this basis of classification by introducing product criteria relating to physical characteristics, function and use which, in effect, overruled the previous requirement respecting the presence of at least some animal fat.

This direction from the Minister has been designated as Reference No. 154.

Tariff item 1305-1 reads as follows:

	<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
Lard compound and similar substances, n.o.p. .... .....per pound	1 ct.	1 ct.	2 cts.	
<i>G.P.T. rate from 1/7/74 to 30/6/84 ..........per pound</i>				$\frac{1}{2}$ ct.
<i>New Zealand Trade Agreement .......Free</i>				

The history of this and related tariff items is reviewed in Appendix I.

Submissions to the Board

Written submissions with respect to this Reference have been received from the Australian High Commission, Ottawa, the Canadian Federation of Agriculture, and the Institute of Edible Oil Foods. Public sittings of the Board, in connection with the inquiry, were held in Ottawa on June 3rd and 4th, 1975. At these sittings, the principal presentation was made by the Institute of Edible Oil Foods (representing approximately 90 per cent of Canadian edible oil refining and further processing capacity), while statements were also made by spokesmen for some of the 20 individual companies and trade associations comprising the membership of the Institute. At no stage during the course of the inquiry have representations been made to the Board by consumer interests.

With reference to the submissions received by the Board, that emanating from the Australian High Commission requests the continuation of the entry into Canada on a duty-free basis of coconut oil produced in Papua New Guinea. The Board has taken cognizance of the concern indicated by the Australian High Commission in this regard but considers the importation of crude vegetable oils, such as coconut oil, as being outside the scope of its present inquiry.

In its submission to the Board, the Canadian Federation of Agriculture claims that as a result of the aforementioned decision of the Exchequer Court, "the whole structure of tariff protection on vegetable oils

and their products has been very significantly undermined." In a similar vein, the submission from the Institute of Edible Oil Foods speaks of an "unanticipated and unintended warping of the tariff structure." Thus: "The effect of the Exchequer Court decision which gave rise to Reference 154 was to reclassify various processed vegetable oils, or products thereof, to a tariff item which carries the same duty rate as crude lard, 1¢ per lb. ($\frac{1}{2}$ ¢ per lb. under the G.P.T. and Free under the New Zealand Trade Agreement), from tariff items under which they had been dutiable at 17 $\frac{1}{2}$ %, M.F.N. The specific rate of 1¢ per lb. has an ad valorem equivalent at today's prices of about 2 $\frac{1}{2}$ %. By this reclassification the duty rate of these processed oils or products thereof was brought far below the duty rates applicable to the crude oils or fats from which these products are made." In consequence, "the Exchequer Court judgement turned a positive refining margin into a negative margin for any substance similar to lard compounds." This situation, so it is alleged, "has led to a dramatic increase in imports from the United States of refined and further processed edible oils or fats similar to lard compounds"⁽¹⁾ to the detriment of Canadian producers at all levels of the edible oils industry, from the final processing stage down to primary production.

The tariff proposals put forward by the Institute of Edible Oil Foods for rectifying the aforementioned situation are set out in summary form in Appendix II. Referring to these proposals, it will be apparent that the suggested changes would affect the classification of commodities with respect to both tariff items and the rates of duty to be applied.

With regard to the former aspect, refined and further processed oils currently falling under tariff items 1300-1, 1305-1, 1400-1, 25900-1, 27825-1, 71100-1 and 93819-1 would be regrouped by the Institute under five new or restructured items. Of these five items, four - viz.: rendered lard, rendered tallow, animal stearine of all kinds, n.o.p., and neat's foot oil - would be exclusively concerned with animal oils and fats. All other refined oils and fats and products thereof, with or without additives, n.o.p. (including lard compound and similar substances, such as shortening, currently classified under tariff item 1305-1) would be put into a single tariff item, designated as 1400-1.

With respect to the rates of duty to be applied, the overall effect of the Institute's recommendations would be to increase the average level of protection enjoyed by Canadian refiners and producers of edible oil products, though the tariff on a number of commodities would remain unchanged. More specifically, the Institute proposes that the ad valorem principle should be applied without exception to the import of all edible oils and edible oil products, mostly at the rates of 12 $\frac{1}{2}$ p.c., B.P., 17 $\frac{1}{2}$

(1) In point of fact, most imported goods admitted under tariff item 1305-1 since 1973, if not 1970, have been liquid edible oils and *not* plasticized vegetable oil shortenings such as the products directly reclassified as the result of the Exchequer Court decision (see *infra*. p. 20).

p.c., M.F.N. and 25 p.c. General. These rates would be applied to commodities falling under the major grouping designated as tariff item 1400-1 in the proposed schedule, including all commodities presently entered under tariff item 1305-1 at a M.F.N. rate of duty of 1 cent per pound. With regard to the commodities reclassified under this latter item as the result of the Exchequer Court decision, therefore, the proposals put forward by the Institute of Edible Oil Foods would restore the level of protection to that obtaining prior to the 1970 court ruling. In the case of rendered lard, also currently dutiable at 1 cent per pound, the Institute proposes a M.F.N. rate of 10 p.c., in line with the existing rate on rendered tallow. However, further processed lard (as well as further processed tallow and other refined animal oils and fats) would bear a M.F.N. duty of $17\frac{1}{2}$ p.c.

As is evident from the submission of the Institute of Edible Oil Foods, these proposals represent a strengthening of the philosophical basis underlying the tariff structure for oil seeds, vegetable oils and related products established in line with the Tariff Board's recommendations, published in 1963, in connection with *Reference No. 131*⁽¹⁾, wherein the principle was endorsed of imposing progressively heavier duties at succeeding stages in the production process. This principle was incorporated in a tariff structure which, with only a few carefully selected exceptions, permitted duty-free entry to oil seeds, established a 10 p.c. M.F.N. rate on crude oils to allow a processing margin to crushers, and levied a $17\frac{1}{2}$ p.c., M.F.N. rate on semi-finished and finished products to provide a processing margin to refiners and further processors. In reinforcing this conceptual framework, the Institute's proposals would also have it extended more rigorously than at present to the tariff treatment of oils and fats of animal origin, thus necessitating modifications under a number of different tariff items.

It is not the intention of the present investigation to question either the philosophical approach adopted in the earlier Tariff Board study or the absolute and relative levels of duty formerly conceived in relation to the whole range of vegetable oils and vegetable oil products. The Minister has requested the Board "to make a study and report... on tariff item 1305-1 insofar as it relates to products which are now classified under this item as a result of the Exchequer Court decision." Viewed in this light, the tariff recommendations put forward by the Institute of Edible Oil Foods, while clearly representing a logically consistent set of proposals, appear to extend well beyond the scope of the Board's present terms of reference. Indeed, the Institute's principal spokesman at the public hearing showed a keen awareness of this possible area of contention when he informed the Board: "However, these proposals in relation to lard, tallow and animal stearines are added features, not the main problem. We would not want to press these changes, reasonable as they appear to us, if so doing would lead you to feel that this would require a significant extension of the scope of

(1) Tariff Board, *Reference No. 131: Oil Seeds, Vegetable Oils and Related Products* (1963). For further on these recommendations see Appendix I, p. 39.

your investigation, and slow down the making of your report on the central and important issue. A change in the present tariff item 1305-1 is, of course, an essential to the key point in your terms of reference."⁽¹⁾

Much less sweeping than the tariff proposals submitted by the Institute of Edible Oil Foods are those made by the Canadian Federation of Agriculture. These would simply reverse the ruling of the Exchequer Court by distinguishing between vegetable oil products, notably vegetable oil shortenings, on the one hand, and lard or lard-like compounds, on the other. To effect this distinction, the Federation recommends that a new tariff item should be created for vegetable oil products "if lard, which is of animal origin, is to be left where it is, as, it might be inferred, is the intent of the Minister's reference." It is further recommended that commodities falling under the proposed new tariff item should bear a tariff rate of not less than 12½ p.c., B.P. and 17½ p.c., M.F.N. and that "a mixture composed of vegetable and animal fats should carry the highest tariff applicable to either product in pure form."

In effect, therefore, the Federation's proposals would restore the rate of duty on imports of vegetable oil products, such as vegetable oil shortenings, to the level prevailing prior to the Exchequer Court decision of 1970, while imports of lard and lard compound would continue to be admitted into Canada at the relatively low rate of duty (in terms of present-day prices for these products) of 1 cent per pound M.F.N. Thus, the tariff treatment proposed by the Canadian Federation of Agriculture with respect to imports of shortenings made entirely from vegetable oils or from blends of vegetable and animal oils is in conformity with the treatment recommended by the Institute of Edible Oil Foods. There appears, however, to be a divergence of opinion with regard to the amount of tariff protection which should be accorded to producers of lard and lard compound made wholly from animal oils, although to some extent, if not entirely, this apparent divergence of viewpoint may merely reflect differences in interpretation with respect to the scope of the present inquiry.

Other Sources of Information

Prior to the public sittings, several members of the Board and staff visited two integrated edible oil plants in the Toronto area in order to observe the technical processes of the industry at first hand. Subsequently, discussions were held with managements of a range of undertakings with particular reference to the economics of production and distribution of edible oil products and the issue of foreign competition. The Board hereby acknowledges the co-operation received from company officials and industry representatives in dealing with its various inquiries.

(1) Tariff Board, Reference No. 154: *Vegetable Oil Products. Official Report of Proceedings June 3-4, 1975* (subsequently referred to as *Transcript*), p. 9.

In regard to data pertaining to the production of the edible oils industry the Board has relied essentially upon published statistical sources. In the case of imports, lack of detail in the published figures has been overcome by means of the provision of special tabulations by Statistics Canada and a study of customs entry documentation on the part of the Board's staff.

In putting together this report, the Board has also had available to it the published findings and certain of the evidence of earlier investigations. Mention has already been made of the Board's report on *Reference No. 131: Oil Seeds, Vegetable Oils and Related Products* (1963), and of the hierarchy of tariff rates emanating therefrom.⁽¹⁾ However, as implied in the title, the purview of this report did not extend to animal fats and oils, under which the "lard compound and similar substances" of tariff item 1305-1 would have automatically fallen prior to the Exchequer Court ruling of 1970. Broader in scope, but at the same time more directly relevant to the present study, was the Board's report on *Reference No. 99: Animal and Vegetable Oils, Fats and Greases*, published in 1939. In this report, the Board drew attention to, but left unresolved, certain problems of nomenclature and commodity classification pertaining to tariff item 13 (from which item 1305-1 was subsequently derived).⁽²⁾ Time has served to exacerbate these problems.

More explicitly, a lack of definitiveness with regard to the coverage of tariff item 1305-1, combined, in recent years, with the favourable duty treatment accorded thereunder, has led to a flurry of appeal activity on the part of importers of edible oil products seeking to assert the correctness of this classification in relation to their shipments. These proceedings have included the appeals brought by Hunt Foods Export Corporation of Canada Limited and Hunt-Wesson Foods of Canada Limited, resulting in the Exchequer Court decision of 1970, as well as certain other appeals which have come before the Board subsequent to the public hearing on Reference No. 154.⁽³⁾ Since it has become increasingly apparent to the Board that the prime question at issue in the present instance concerns the nature of commodities classified under tariff item 1305-1 (as opposed to the rate of duty to be applied) it was decided to wait until the latter appeals had been heard, and the evidence pertaining thereto had been reviewed and assimilated, before proceeding to the completion of the present study.

(1) *Supra*, p. 4.

(2) *Reference No. 99*, pp. 85-9, Conclusions, p. 10.

(3) Appeal No. 1220, brought by Les Entreprises Mair Fried Enrg.; Appeal Nos. 1241, 1264 and 1272, brought by Frito-Lay Canada Limited, Colfax International Inc. and Hostess Food Products Limited.

THE PROCESSES AND PRODUCTS OF THE EDIBLE OILS INDUSTRY⁽¹⁾

Definition and Composition of Fats and Oils

Fats and oils are mixtures of chemical compounds composed of a basic constituent, glycerine, combined with certain fatty acids derived from vegetable, animal or marine sources. These constituents of fats and oils are chemically known as "glycerides." They are similar to each other in their chemical composition and properties except in the matter of their consistency. Fats are solid at normal room temperatures (approximately 20° to 22°C) whereas oils are liquid at the same temperatures. A fat becomes an oil when its temperature is raised enough for it to melt. Conversely, an oil may be changed to a fat by reducing its temperature until it solidifies.

Glycerides composed entirely of long-chain saturated acids (such as palmitic and stearic) are solid at ordinary room temperatures, while those composed entirely of unsaturated acids (such as oleic or linoleic) will be liquid over the normal temperature range. The majority of the glycerides are neither completely saturated nor completely unsaturated, but are composed of mixtures of saturated and unsaturated fatty acids. Hence they may be solid at refrigerator temperatures and liquid at room temperatures. The hardness of a fat or oil is directly related to the proportion of hydrogen present in the glycerides in relation to the other main elements, carbon and oxygen. This proportion may be varied by the process of hydrogenation, to be discussed later.⁽²⁾

Types of Edible Fats and Oils

In relation both to world production and Canadian usage, by far the greatest proportion of the supply of edible oils is derived from vegetable sources:⁽³⁾ animal fats are used to a lesser, but significant extent, while marine oils make a very subsidiary contribution.

(1) Reference has been made to the following sources: Theodore J. Weiss, *Food Oils and Their Uses*, The AVI Publishing Company Inc., Westport, Connecticut, 1970; D. Swern (ed.), *Bailey's Industrial Oil and Fat Products*, 3rd edn. John Wiley & Sons, New York, 1964; Anthony Woollen (ed.), *Food Industries Manual*, 20th edn. Chemical Publishing Co. Inc., New York, 1970.

(2) See *infra*, p. 10.

(3) Domestic production of deodorized oils in 1977 amounted to 815 million pounds, of which vegetable oils accounted for 735 million pounds, or over 90 per cent (Statistics Canada, *Oils and Fats*, December 1977, Catalogue No. 32-006).

Vegetable oils are derived from the seeds of plants which grow in many different parts of the world. Several hundred varieties of plants are known to have oil bearing seeds but relatively few are significant commercially. From a Canadian standpoint, the following are most worthy of mention: rapeseed and soybean (which together account for between two-thirds and four-fifths of the volume of all vegetable oils used for edible purposes), palm, corn, coconut, sunflower, peanut, palm kernel and cottonseed.

In the area of animal fats and oils, the major sources are hogs, ruminants and, to a much lesser extent, poultry. An important commercial distinction is that while most vegetable oils are prime or principal products,⁽¹⁾ animal fats and oils are normally by-products of meat production. Likewise, the bulk of marine oils are by-products of fishery activity. Herring, seal and whale are the main sources of edible marine oils in Canada.

Processing of Edible Oils

Extraction

The removal or extraction of fats and oils from their natural structures is the first major processing operation in the preparation of edible oil products. Depending upon the particular type of oil source, the method employed is normally that of rendering (i.e. melting down fatty animal tissues), pressing or solvent extraction. The resulting products are crude fats and oils, some of which may be sold as such for industrial consumption.⁽²⁾ However, most will be subject to a series of further processes, as depicted in Diagram I.

Initial Refining

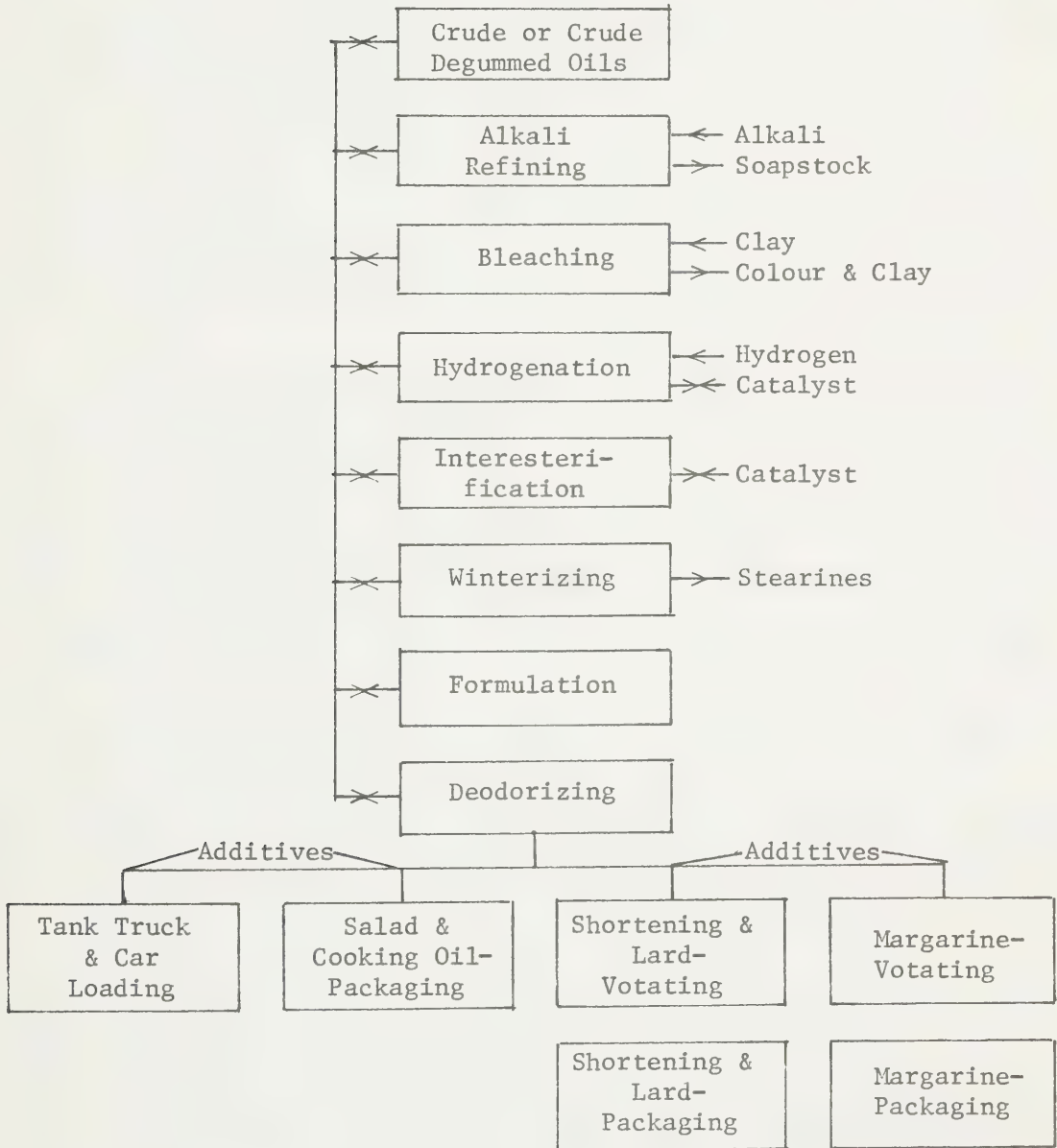
The first stage of these further operations comprises the removal of impurities and other degradation substances which will otherwise cause the material to develop "off" flavours and odours. Impurities are of two main kinds: fat-soluble and fat-insoluble. Impurities of the latter sort include gums, resins, protein material and phosphatides. They are removed first by a process known as degumming. This operation (and the subsequent stage of alkali refining) is carried out in large tanks fitted with heating coils. The crude oil is mixed with water or a weak salt solution. Impure materials are precipitated into the aqueous layer, which is then drained off.

In the alkali refining (or neutralization) process the oil is treated in order to dispose of free fatty acids which, if left, would

(1) However, the oil cake and meal produced during the process of vegetable oil extraction are also major articles of commerce.

(2) E.g. prime steam lard is often sold in undeodorized form for use in bread and pastry making.

DIAGRAM 1

REFINING & PROCESSING OF EDIBLE OILS AND FATS:
PRODUCT FLOW

Source: Institute of Edible Oil Foods.

oxidize to cause rancidity. The free fatty acids are combined with an alkali, usually caustic soda, to form a thick soap solution. This is separated from the oil, which is then washed and dried under vacuum. Alkali refining also has a slight bleaching effect in that the soap solution adsorbs some of the material responsible for colour.

In the succeeding process, the oil, while still under vacuum, is heated with an adsorbent material, usually bleaching clay (also known as fuller's earth). The clay adsorbs colour pigments and residual oxidized material which would otherwise affect stability. Subsequent filtering of the oil permits the adsorbent and undesirable colouring-matter to be removed.

Modification

If modification of the physical properties of the oil is required, it takes place at this stage. Depending upon the characteristics of the oil and the intended end use, one or more of several processes may be carried out. Of these, that most frequently undertaken is the process of hydrogenation.

As already indicated⁽¹⁾, oils which are deficient in hydrogen (notably, unsaturated oils) melt at low temperatures. This reduces their usefulness. Such oils are also unstable, which means that they are liable to deteriorate easily. Hydrogenation is a chemical process whereby hydrogen gas is combined chemically with an oil in the presence of a catalyst, usually nickel. By this means, the make-up of the oil molecule is changed, the melting point of the oil is increased, and a greater degree of stability is achieved. After the hydrogenation process has been completed, the catalyst is removed and can be used again. Different degrees of hydrogenation are possible; and it should be noted that the process is seldom taken to completion, since fully hydrogenated oils have very high melting points. Historically, the process of hydrogenation has proved especially beneficial to the margarine industry. Before its discovery at the beginning of the twentieth century, margarine manufacturers were dependent upon animal fats because of their greater natural hardness. Hydrogenation revolutionized the industry by making it possible to use vegetable oils in the production of margarine at a time when animal fats were in very short supply.

Interesterification is a more recently developed and less commonly used process than hydrogenation. It is carried out as a means of modifying the melting characteristics of a fat or mixture of fats by changing the positions of the fatty acid groups in the glyceride molecules. When, during the course of this process, fat is treated in the presence of a catalyst (usually sodium, sodium methoxide or sodium ethoxide) the fatty acid groups rearrange themselves and go to random distribution.

(1) *Supra*, p. 7.

The ability to modify the molecular arrangement of fats in this way has proved particularly useful in the case of lard. In its natural state, lard is markedly grainy due to the preponderance of palmitic acid in the middle or *beta* position of the glyceride molecule. After interesterification, the melting point is hardly affected but (since a mixture of glyceride types inhibits the development of large crystals) this graininess is removed and the lard takes on an enhanced creaming quality, whereby its versatility for baking purposes is increased.

All oils are mixtures of solid and liquid glycerides. Winterizing is a process of fractional crystallization aimed at removing the higher-melting glycerides so that oil will remain clear and not solidify on chilling. Winterizing is accomplished by heating refined and bleached oil, passing it into a chilled tank under strictly controlled conditions, and allowing it to stand for approximately 3 to 4 days. During this time, the soft fats in the form of oil, separate from the more solid stearine and are subsequently filtered off. In the past, this process has most commonly been applied to cottonseed oil in the preparation of salad oil and mayonnaise.

The end products of the edible oils industry may be derived from single oil sources or from blends of different oils and fats. With the technological developments of recent years, the lines of distinction which used to exist between processed oils from animal sources and processed oils from vegetable sources and, to some extent, processed oils from marine sources, have largely disappeared. In consequence of the chemical processes already described, and by means of blending or mixing, the crude oils from these various sources can be used with a high degree of interchangeability, the choice of one oil rather than another being in many instances more a function of relative prices than of inherent characteristics.

However, while there is some tolerance for variation, product specifications impose limitations beyond which it is impossible to go. Processing characteristics, flavour and colour are factors limiting the extent to which many oils can be used for particular purposes. A further consideration is the fat solids content of an oil at different temperatures. In a temperate climate, 15-30 per cent of the fat phase of margarine should be composed of solid fat. A soft tub margarine will contain a large percentage of liquid (unhydrogenated) oils, whereas a firm margarine for making puff pastry will have a relatively high solids content. Again, the consistency and plasticity of the finished product will depend to some extent upon the particular oil or blend of oils chosen. In general, it appears to be more usual to obtain a desired consistency by mixing a hard hydrogenated oil with a liquid oil rather than by using a single oil which has been slightly hydrogenated. Such blending (or formulation) takes place in a blending scale tank, at which time stearine may be added as a hardening agent.

Deodorization

Deodorization is the final refining operation in the preparation of an oil for edible use. As the term implies, deodorization is a process whereby the odours and flavours of fats and oils are removed, resulting in a bland finished product. At the same time, other residual compounds (including waxes, free fatty acids, monoglycerides, pigments and fatty oxidation products) are also removed. Hardened fats are always deodorized after hydrogenation in order to eliminate the characteristic odorous compounds which are formed during this process.

Deodorization is essentially a process of steam distillation under low pressure. Both the heating of the oil to deodorization temperature (180-240°C) and its subsequent cooling are carried out under vacuum in order that the oil, when hot, should not be oxidized by contact with air. In a process known as "polishing," the deodorized oil is often filtered before use.

Additives

The range of processes described above are, in essence, batch rather than continuous in nature: there is no single standardized production line; the product flow can move in any of a number of directions and even be discontinued at certain points; while differences in product specifications can be, and are, accommodated. However, although the choice of oils and processing procedures may, in many instances, be made in the light of certain pre-determined end-uses, oils which have passed through the processes of hydrogenation and deodorization will often be suitable for a range of different applications.

In relation to certain industrial applications, such deodorized oils may, in fact, represent the final product without any further modification or the blending in of additives. However, additives (mostly in very small quantities) may be introduced in the final processing stages depending upon the intended product function and use. Thus, in the case of oils and fats intended for deep-frying purposes, additives are likely to include stearine (to adjust the melting point upwards and to elevate the smoke point), anti-oxidants (to provide stability) and silicones (to minimize foaming tendencies).

For edible oil products other than margarine, additives are unlikely to account for much more than 2 per cent of product weight. On the other hand, conventional margarine is a blend of about 80 per cent fat, 16 per cent water, $1\frac{1}{2}$ per cent salt and 2 per cent nonfat milk solids (usually reconstituted milk), plus vitamins A and D, colouring materials, flavouring agents and other additives (such as preservatives, emulsifiers and antioxidants). In Canada, as in many other countries, the inputs of

fat and vitamins are prescribed by official regulation⁽¹⁾; this still leaves room for an almost infinite permutation of other ingredients in accordance with the particular characteristics which the manufacturer of margarine seeks to impart to his product.

The incorporation of additives may be undertaken either on refinery premises (where any subsequent packaging operations may also be carried out) or at the plants of those independent packagers and industrial users who purchase deodorized oils in bulk from the refineries. Margarine packagers, in particular, are likely to be directly concerned with this part of the processing operation on account of the weight and range of non-fat ingredients incorporated in margarine.

Bulk Shipments, Final Processing and Packaging

Over the years, the general tendency has been for the industrial (as opposed to the household) consumption of edible oils and fats to grow in relative, as well as absolute, terms and, as a corollary of this tendency, for an increasing proportion of edible oils to be marketed as final products in liquid or semi-liquid (as opposed to plasticized) form. In Canada, at the present time, the larger part of the edible oil industry's throughput of deodorized oils (amounting to almost two-thirds in the case of margarine oils) is either not processed any further or is sold by the refinery for final processing elsewhere.

Heated tank wagons and rail cars, with carrying capacities in the range 20,000 - 175,000 pounds, are used for the bulk shipments of margarine oils and shortening oils, these being loaded and transported in a molten state at temperatures around 40°-50°C⁽²⁾. If allowed to cool to normal room temperature such oils (assuming that they had been partially hydrogenated beforehand or had been derived from naturally occurring fats) could become semi-solid, thus creating problems in connection with removal from the carrier. Upon delivery, the melted oils are pumped into storage tanks to be held at somewhat elevated temperatures until needed. Even if blanketed with nitrogen gas, such melted oils have a limited storage life, and use within 7-10 days is recommended.

In addition to storage facilities, bulk handling systems directed towards the utilization of bakery shortenings require special equipment for chilling and plasticizing in order to convert the liquid oils into products capable of shortening or tenderizing the texture of baked goods. This is achieved through changing the crystalline structure of the oils.

(1) See Department of National Health and Welfare, *Office Consolidation of the Food and Drugs Act and Regulations, with Amendments to November 17, 1977*, p. 48A.

(2) Winterized salad oils and cooking oils do not normally crystallize at room temperature and so would be transported at cooler temperatures.

More commonly, however, such chilling and plasticizing are carried out, not in the bakery, but in the edible oil processor's plant in conjunction with packaging operations. At this stage, the key piece of equipment is a scraped-surface heat exchanger, generally referred to in the North American edible oils industry as a "votator,"⁽¹⁾ while the plasticizing process, itself, is alternatively known as "votation."

In this process, the mixture of deodorized oil and additives (if any) is passed through a cooling chamber under extreme agitation. The cooling reduces the temperature of the oil to 22°-27°C and this, combined with the agitation, produces very small crystals. At this point, a measured quantity of air or nitrogen is incorporated in the shortening to produce the characteristic white fluffy appearance. On emerging from the votator the shortening is in a fluid form; it goes almost immediately into packages, where it sets. The packages may be of various kinds and sizes: e.g., $\frac{1}{2}$ lb. and 1 lb. prints for the retail market; 3 lb. cans, 50 lb. cans, 50 lb. cubes, 110 lb. cans or 400 lb. drums for industrial or commercial use. After filling, the various packages are held in temperature-controlled rooms for a specific period of time, varying from two to four days (depending upon the product) until the crystal structure has become stable.

The final processing of other plasticized products - e.g. lard, cooking fats and margarine - is basically the same as that described above for shortening. For the manufacture of margarine some minor modifications may be built into the votator and its ancillary equipment depending upon the form of package and how it is to be filled.

Salad oils and cooking oils are not votated. After deodorization, these products go directly to be packaged in small bottles, if for retail distribution, or in 5 gallon tins or drums.

STRUCTURE OF CANADIAN EDIBLE OILS INDUSTRY

For statistical reporting purposes, edible oil processors are not recognized as a separate industry group. Census of manufacturing data pertaining to edible oil plants are reported under three S.I.C. groups - viz.: Vegetable Oil Mills (S.I.C. 1083), Slaughtering and Meat Processors (S.I.C. 1011) and Miscellaneous Food Processors (S.I.C. 1089) - and in two of these three groups cannot be distinguished among the data relating to all establishments.

In 1976, vegetable oil mills reporting under S.I.C. 1083 had 897 employees and shipments of goods of own manufacture valued at almost \$312

(1) This is a proprietary name, attributable to the Girdler Corporation of the U.S.A.

million⁽¹⁾, but this kind of detail is not available in relation to edible oil processors as a whole. An estimate volunteered by the Institute of Edible Oil Foods in 1975 put total employment in all sectors at approximately 4,000 persons. At the same time, replacement of fixed assets for crushing, refining and packaging was estimated at approximately \$300 million at current values.⁽²⁾

Statistical information pertaining to the production of edible oil products is well documented in the *Monthly Survey of Oils and Fats* (Catalogue No. 32-006) published by Statistics Canada. The same survey also lists the names, locations and products of the respondent firms. This information in relation to December 1977 is presented in Appendix III and forms the main basis for Tables I and II below.

Table I: Canadian Edible Oil Processing Plants: Types of Operation, December 1977

	<u>Atlantic Provinces</u>	<u>Quebec</u>	<u>Ontario</u>	<u>Prairie Provinces</u>	<u>British Columbia</u>	<u>Canada</u>
	- No. of Plants -					
Crushing and/or Refining			4	3		7
Crushing-Refin- ing-Packaging		2	2	3		7
Refining-Pack- aging			5			5
Packaging	<u>2</u>	<u>7</u>	<u>5</u>	<u>6</u>	<u>3</u>	<u>23</u>
Total	2	9	16	12	3	42

The vertically-integrated nature of operations is brought out in Table I, which shows 45 per cent of the edible oil processing plants in Canada engaged in more than one of the three major operations of crushing, refining and packaging. The high concentration of crushing and refining activity on the Prairies and Ontario reflects the importance of these regions as primary sources of vegetable oils (notably rapeseed and soybean) production. Elsewhere, packaging plants predominate.

(1) Statistics Canada, *Vegetable Oil Mills*, 1976, Catalogue No. 32-223.

(2) *Transcript*, p. 21.

Table II: Canadian Edible Oil Processing Plants: Types of
Packaged Product, December 1977

	<u>Atlantic Provinces</u>	<u>Quebec</u>	<u>Ontario</u>	<u>Prairie Provinces</u>	<u>British Columbia</u>	<u>Canada</u> ^(a)
	- No. of Plants -					
Margarine	2	7	8	4	2	23(7)
Shortening ^(b)		5	7	8	3	23(7)
Salad Oil	—	<u>5</u>	<u>7</u>	<u>3</u>	<u>3</u>	<u>18(4)</u>
Total	2	17	22	15	8	64(18)

(a) Figures in brackets are of the number of single-purpose plants producing only the type of product indicated.

(b) Including lard, cooking oils and fats.

In Table II the regional distribution of manufacturing units is tabulated with respect to the nature of packaged output, whether margarine, shortening or salad oil. Since some plants package more than one of these product types - indeed, 11 package all three categories - the number of production units indicated in the table is substantially greater than that shown in Table I. However, in the case of 18 establishments, only one of the aforementioned categories of product is packaged. Overall, the number of plants is fairly evenly divided on the basis of product type, with margarine producing units being somewhat more numerous in the east and shortening manufacturing facilities predominating in the west.

COMMODITIES CLASSIFIED UNDER TARIFF ITEM 1305-1

The Board is enjoined to make a study and report on tariff item 1305-1 "insofar as it relates to products which are now classified under this item as a result of the Exchequer Court decision." In addressing itself to this task, the Board has encountered problems of product identification of unusual complexity.

Lard Compound and Similar Substances

In the first place, the wording of tariff item 1305-1 ("lard compound and similar substances, n.o.p.") is archaic and obscure. However, there seems little doubt that when the term "lard compound" first appeared in the Customs Tariff in 1894, it was directed (as the phrase suggests) at blends of edible fats with a lard base. Indeed, prior to 1949, the Pure Food and Drug Act specified that "compound lard, lard compound shall be a mixture of animal and vegetable fats and oils... and at least 51 per

cent of actual lard shall be present in the article." In keeping with this legislation, an administrative ruling of the Department of National Revenue (in existence in 1939) stipulated that lard compound *and similar substances*⁽¹⁾ must contain some lard.

These provisions seem clear enough and are mentioned in the Tariff Board's *Report on Reference No. 99: Animal and Vegetable Oils, Fats and Greases*, tabled in April 1939. It is therefore, all the more surprising to read in the same report that "lard compound is a blend of animal and vegetable oils. The lard compound most generally produced is one consisting of about 60 per centum of vegetable oil and 40 per centum of tallow."⁽²⁾ Either, it seems, the Board was using the term "lard compound" in a much looser sense than that recognized by the law, or the latter had, in effect, become a dead letter. In either case, the likeliest explanation appears to be that by 1939, with the growing consumption of (less expensive) vegetable oils, lard compound as originally marketed and labelled had virtually disappeared from the grocers' shelves and - as a corollary - the expression "lard compound" had ceased to have any very precise meaning in everyday parlance.

Nevertheless, at no time prior to Appeal Nos. 907, 908 and 909 by Hunt Foods Export Corporation *et al* in 1969 does there seem to have been any suggestion that shortening made wholly from vegetable oils should be regarded for tariff purposes as a "similar substance" to lard compound. Doubtless, the lack of such a suggestion can be ascribed at least partly to the fact that prior to the GATT engineered duty revisions with respect to edible oils and fats in 1968-69 there would have been little, if any, financial incentive to an importer to press for a classification of this kind. At the same time, until the Exchequer Court ruled otherwise in 1970, it was always apparently accepted by both the Department of National Revenue and the Tariff Board that in order to qualify for entry under tariff item 1305-1 (and corresponding previous items 13a, 13 and 18) a product had to be wholly or partly of animal origin. Thus, in ruling on the Hunt Foods appeal the Board took the line that lard compound should contain some lard⁽³⁾ and that "similar substances" should contain some tallow. In overriding the Board in its interpretation of "similar substances," the Exchequer Court, in effect, cut across the structural division of edible oils and fats which had been developed in the Customs Tariff on the basis of the source of material by superimposing (in the case of tariff item 1305-1) criteria related to "function, use, appearance, melting point, hardness, solidity at various temperatures, stability, flavour, odour and colour."⁽⁴⁾

(1) Our italics.

(2) *Reference No. 99, Conclusions*, p. 10.

(3) See also the declaration made by the Board in 1955 in connection with Appeal No. 343 brought by Consumers Foodcraft Corporation.

(4) *Exchequer Court Report*, 1970, p. 840.

Confusion as to what exactly is encompassed by tariff item 1305-1 is heightened by differences in the English and French versions of the commodity description which date back to June 1950, when item 13a (later 1305-1) was broken out of the larger tariff item 13. Prior to this date, the French wording of tariff item 13 had read: "Saindoux, mélanges de saindoux et produits similaires...", thus corresponding exactly with the English product description. Subsequently, "lard compound and similar substances" has been translated into French as "graisses alimentaires mélangées et produits similaires," which, of course, suggests an altogether broader meaning.

Shortening

The bulk of the imports which have come in under tariff item 1305-1 in recent years have been described as "shortenings" made largely or partly from vegetable oils.⁽¹⁾ The term "shortening," which at one time was used to describe a function rather than a product, has subsequently evolved to the point where there now appears to be no general consensus as to its meaning. During the course of Appeal Nos. 1241, 1264, and 1272, brought by Frito-Lay Canada Limited, Colfax International Inc., and Hostess Food Products Limited,⁽²⁾ shortening was described by the experts variously as:

- (a) a plasticized material made up of a mixture of oil and fat triglycerides whose crystalline structure and homogeneity contributes to the shortening or tenderizing of the texture of baked goods;
- (b) an all-encompassing term used in the trade in the United States for all fats and mixtures of fats and oils which are not clearly liquids at room temperatures (and even including some so-called liquid shortenings);
- (c) a replacement for the term "lard compound" which in its broader meaning is interchangeable with "fat," "lard," "lard substitute," "frying shortening," etc.

(1) Much deodorized lard has also been imported under this item, as well as under item 1300-1.

(2) These appeals concerned the classification of shipments of non-plasticized mixtures of hydrogenated cottonseed oil and palm oil, and of hydrogenated soybean oil and palm oil, with additives. Customs and Excise had ruled that the shipments should be classified under 27740-1 and 27825-1. The appellants claimed that the products in question were "shortening" and should be permitted entry under tariff item 1305-1 as "similar substances" to lard compound.

In publishing its findings on these appeals on April 10, 1978,⁽¹⁾ the Board (in line with certain notions expressed by Mr. Justice Kerr in the Exchequer Court in 1970)⁽²⁾ held that the first of the aforementioned descriptions most properly described the characteristics and functions of shortening, and on that basis ruled against the appellants.

It is noted that the word "shortening" does not appear in the commodity description of any item in the existing Customs Tariff. This omission has, of course, affected vegetable oil products rather than animal fats or blended compounds which, in plasticized form, have long been provided for under items 1300-1, 1305-1, 1400-1 (tallow) and their predecessors. The failure to make special provision for, or reference to, vegetable oil shortening in the Customs Tariff may seem all the more surprising in view of the fact that for over half a century the people of Canada have consumed considerably more shortening than lard. Even before World War II, the per capita consumption of shortening in Canada was more than five times that of lard.⁽³⁾

One consequence of this lack of specific tariff identification has been a corresponding lack of reliable time series data pertaining to imports of shortening, especially for years before 1963⁽⁴⁾. Another consequence has been the perpetuation of a degree of uncertainty with respect to the applicable tariff classification for vegetable oil shortening, accompanied by a shifting official posture in this regard.

Prior to the establishment in April 1951 of tariff item 277 ("oils hydrogenated") it appears that all-vegetable shortening was normally classified - along with various vegetable oils - under item 711 ("all goods not enumerated"). Subsequently, Customs and Excise apparently adopted the position that vegetable oil shortening was a hydrogenated oil and thus classifiable under item 277 (subsequently 27700-1 and now 27825-1).

(1) *Notice 1014*.

(2) See *infra*, pp. 21-2.

(3) In 1937, the per capita consumption of shortening was 10.62 pounds, while that of factory lard was 1.99 pounds (*Reference No. 99, Conclusions*, p. 4).

(4) Volume data are not, of course, generally available by tariff item. On a commodity classification basis, the import statistics published by the former Dominion Bureau of Statistics with respect to the period before 1963 included shortening in c.c. 390 as part of "vegetable food products not otherwise specified." Since 1963, shortening imports have been reported under c.c. 120-49, which also encompasses margarine, although the import of such substitutes for butter are prohibited except to Newfoundland. In addition, considerable flexibility and interchangeability appear to exist with respect to the classification of shortening and lard (c.c. 120-99).

This position seemingly went unchallenged until Hunt Foods Export Corporation and Hunt-Wesson Foods objected to the classification of certain plasticized vegetable oil shortenings under this item, claiming that the products in question (composed of hydrogenated soybean and cottonseed oils and additives) were "similar substances" to lard compound and hence classifiable under item 1305-1. In reviewing the argumentation which followed, neither the Tariff Board (in May 1969) nor the Exchequer Court (in October 1970) found the position put forward by Customs and Excise to be supportable, and both ruled, in effect, that while the imported goods in question were largely composed of hydrogenated oils they were not regarded as such in the trade having undergone the further processes of deodorization and votation. But whereas the Board favoured a reversion to renumbered item 71100-1 ("all goods not enumerated"), Mr. Justice Kerr, on his interpretation of the term "similar substances,"⁽¹⁾ held 1305-1 to be the proper classification. However, as will be discussed in more detail later,⁽²⁾ the Exchequer Court ruling was made with reference to the tariff structure as it existed in 1967 (the date of the controversial imports), prior to the introduction of the revised series of items for vegetable oils in January 1968.⁽³⁾

Characteristics of Recent Imports

However, in spite of - or, perhaps, because of - the Exchequer Court ruling the situation remains unresolved. On the one hand, - as emerges from a customs entry study covering certain months of 1977 (see Appendix Tables 1-3) - not all importers of plasticized vegetable oil shortening are yet taking advantage of, or benefiting from, the low rates of duty applicable under tariff item 1305-1. Indeed, during the months sampled, less than two-fifths of the pertinent imports were so classified, the remaining imports falling under items 27740-1, 27825-1 and 71100-1, all dutiable at 17½ p.c. (see Appendix Table 1).

Secondly, while only small quantities of plasticized (packaged) vegetable oil shortening have been admitted under tariff item 1305-1, large volumes of liquid or semi-liquid (non-plasticized) oils, mostly bearing the appellation "shortening" or "deodorized lard" have been, and are being, imported under this classification in tank wagons and rail cars. Further large quantities of deodorized lard and occasional shipments of "shortening" have also been admitted in liquid form under the associated tariff item 1300-1 (see Appendix Tables 1 and 2).

Such liquid oils accounted for 91.2 per cent, by volume, of all imports admitted under item 1305-1 during the months covered by the aforementioned customs entry study (see Appendix Table 2). By comparison,

(1) See *supra*, p. 17.

(2) *Infra*, p. 31.

(3) See Appendix I, pp. 39, 40.

plasticized vegetable oil shortenings accounted for a mere 0.3 per cent, while plasticized shortenings of all kinds accounted for a total of 8.8 per cent.

The bulk of the liquid products have seemingly comprised fats for deep-frying purposes destined for industrial users such as Hostess and Frito-Lay, and lard and margarine oils imported for further processing by margarine packagers. Apparently, it is possible to import the oils which go into margarine but, with certain closely defined exceptions, not the margarine itself.⁽¹⁾ However, in connection with these exceptions⁽²⁾, it is worthy of note that the Department of National Revenue in its "Oleomargarine Exemption Regulations"⁽³⁾ specifies that "in general, oleomargarine imported under these regulations is dutiable [under item 27825-1 or item 71100-1] as a hydrogenated vegetable oil or as an unenumerated article." It is a moot point as to why these classifications are not apparently being applied in the case of margarine oils, which patently represent an earlier stage of production than the packaged margarine.

The use of tariff item 1305-1 in connection with the importation of edible oil products in liquid form does not appear to have been envisaged in 1970, at the time of the Exchequer Court decision: indeed, as the following quotation indicates, such imports seem to have been specifically precluded from 1305-1 by Mr. Justice Kerr on the ground of their lack of plasticity. Thus, in passing judgment on the appeal brought by Hunt Foods Export Corporation of Canada Ltd., and Hunt-Wesson Foods of Canada Ltd., in the Exchequer Court in 1970, he stated:

"I agree that the words hydrogenated oils are used in item 27700-1 with the meaning they have in the trade and that they do not include the products in issue. These products are made from such oils *but in their final form they are plastic or flakes, not liquid, and are in other respects also very different from what is sold and known in the trade as hydrogenated oils, such as the bulk liquid oils delivered in tank cars by Lever Brothers and Procter & Gamble.*"⁽⁴⁾

In the latter part of this statement, Mr. Justice Kerr seems to be saying that had the products in question been liquid, rather than plastic or flakes, their proper classification would be tariff item 27700-1

(1) The importation of "oleomargarine, butterine and all such substitutes for butter" was prohibited at least as early as 1886 (see *Statute 49 Victoria, c. 37.*)

(2) See *Statute 13 George VI, c. 1. An Act to Approve the Terms of Union of Newfoundland with Canada* (1949); Department of National Revenue, Customs and Excise, *Memorandum D33-3* (June 27, 1972).

(3) *Memorandum D33-3.*

(4) *Exchequer Court Report*, 1970, p. 840. Our italics.

(now 27825-1). By implication, he also seems to be excluding from tariff item 1305-1 the bulk tank car deliveries of liquid oil which feature so prominently in post-1973 imports under 1305-1 and which are the main source of complaint by the Institute of Edible Oil Foods.

It should be further noted that there is nothing to indicate that Mr. Justice Kerr's thinking was in any way influenced by the issue of additives, the presence of which could perhaps, in theory, have been held sufficient to exclude the imports by Hunt Foods *et al* from classification under tariff item 27700-1 (now 27825-1) as being something more than hydrogenated oils.⁽¹⁾ As the extract from his summary statement indicates, the essential criteria underlying his decision in 1970 were the physical characteristics and usage of the products in question.

In line with these criteria, the Board in its declaration on Appeal Nos. 1241, 1264 and 1272 in April 1978⁽²⁾ ruled that certain of the non-plasticized and partially hydrogenated vegetable oil "frying shortenings" and "lard substitutes" proposed for entry under item 1305-1 should be classified under item 27740-1 ("vegetable oils, other than crude or crude degummed: all other n.o.p. and mixtures of vegetable oils n.o.p."), item 27825-1 ("oils hydrogenated") being inapplicable on account of the relatively high unhydrogenated oil content of the goods in question⁽³⁾. In rejecting claims for classification under item 1305-1 the Board concluded:

"Despite the fact that the goods at issue were described in the U.S. trade as shortenings, they were used for deep-frying of snack foods and it was established that they would not perform the tenderizing function of shortening without being plasticized, either by votation or some other process. As to physical characteristics, the Board noted that the goods at issue cross the border in a molten state and, in that form, could hardly be classified as anything but a hot pourable liquid⁽⁴⁾. Even at room temperature, they are a yellowish heterogeneous mixture of fat crystals and liquid oils containg coarse crystal material

(1) However, with respect to normal current administrative practice, it is understood that as long as additives do not change the chemical composition of refined or hydrogenated oils and as long as they make quantitatively insignificant additions thereto, their presence is not allowed to bear on the matter of tariff classification.

(2) See *supra*, pp. 18-19.

(3) The goods were stated "to contain anywhere from 18 to 98 per cent of natural cottonseed oil, soybean oil and/or palm oil" (*Notice 1014*, p. 11).

(4) In this connection, Section 46 (formerly Section 43) of the Customs Act states that goods are to be classified for tariff purposes at the time of entry into Canada.

visible to the naked eye. Thus, while the flavour, odour, stability, melting point, and the free fatty acid content and peroxide values may be the same for the goods at issue and for a lard compound, the Board is satisfied that the differences in crystal structure, solidity, colour and translucency, as well as function are sufficient to prevent any of the goods at issue from qualifying as 'similar substances' within the meaning of tariff item number 1305-1."⁽¹⁾

It seems very probable that most of these comments could apply to the bulk of the shipments now being admitted under item 1305-1. However, while the Board's ruling on Appeal Nos. 1241, 1264 and 1272 may thus be seen as a move in the right direction, it would appear on the basis of data contained in Appendix Table 2, that only a very small proportion of the imports recently admitted under 1305-1 were comprised entirely of vegetable oils (excluding additives) and thus potentially classifiable to 27740-1 or 27825-1 ("oils hydrogenated"). Put another way, the overwhelming bulk of imports under 1305-1 have seemingly consisted of liquid animal fats (notably deodorized lard) and blends of animal and vegetable oils. With respect to the latter, much of the blended oil appears to have been unhydrogenated in whole or in part. This would seem to pose particular problems in relation to classification, for nowhere in the Customs Tariff has specific provision been made for such mixtures of oil in *liquid* form. Consequently, with respect to such mixtures, the essential question would appear to be whether the imported "substances" could be considered to be sufficiently "similar" to lard compound for the n.o.p. rider of 1305-1 to apply; item 71100-1 would seem to provide the only other option.

THE DOMESTIC MARKET AND IMPORT PENETRATION

Import Trends

As indicated above, an examination of the pertinent import documentation strongly underlines the suspect nature of customs entries with respect to the classification of edible oil products and reveals a high degree of interchangeability in usage between tariff item 1305-1 and some three or four related items.⁽²⁾ Even on a commodity classification basis, the dividing line between the principal commodity classes - viz.: 120-49 ("shortening and margarine") and 120-99 ("lard") - as well as between the

⁽¹⁾ *Ibid.*, pp. 10-11.

⁽²⁾ At the same time, imports under item 1305-1 (as well as under item 1300-1) appear to comprise a higher proportion of lower-priced oils and fats (see Appendix Table 3).

principal tariff items - viz.: 1305-1 ("lard compound") and 1300-1 ("lard") - is by no means sharply drawn. Thus, imports of deodorized lard, which would seem quite clearly to be covered by c.c. 120-99 and tariff item 1300-1, are occasionally entered under c.c. 120-49 and tariff item 1305-1. Similarly, entries relative to "shortening" can be found under both commodity classes and both tariff items.

All this, of course, not only makes it very difficult to pin down, in any very precise manner, changes in the composition of relevant imports over time but, if a meaningful study is to be carried out, it also serves to preclude a narrow concentration of analysis upon tariff item 1305-1. In this connection, the Board is, however, authorized by the Minister to study such other tariff items as may appear relevant to the task in hand.

Since imports are a factor in domestic consumption, the aforementioned lack of precision also serves to aggravate the problem of accurately estimating the changing dimensions of the home market for edible oil products. Other difficulties in this regard stem from the high degree of substitutability of raw material inputs, as between different end-uses, and from the batch nature of the production processes, which (when more than one producer is involved) tend to introduce an element of double-counting into the statistical records.

For these reasons, the principal parameters of the home market as set out in Table III, should be viewed with a certain degree of caution. For one thing, the extent of domestic consumption may be somewhat overstated. Thus, the total imports entering under tariff items 1300-1, 1305-1, 27740-1 and 27825-1, would not have been entirely deodorized oils or products thereof, although, in partial compensation for this exaggeration, edible oil products entering under tariff items 1400-1 ("tallow") and 71100-1 ("all goods not enumerated") have been excluded from the reckoning as they are not generally identifiable in the available statistics.

As emerges from Table III, imports of deodorized oils and their products approximately doubled in volume between 1968-70 and 1977 growth being most rapid in 1974. A peak was reached in 1976, when 98.0 million pounds of the pertinent commodities were admitted. As might be expected, the expansion in imports was most marked in the case of tariff item 1305-1, which accounted for 45 per cent of the combined shipments under all specified items between 1974 and 1977, compared with 25 per cent in the earlier years treated. Imports under 27825-1 ("oils hydrogenated") also featured prominently in the latter part of the period, although it is understood that large quantities of liquid "shortening" recorded under this

Table III: Domestic Market for Deodorized Oils, 1968-1977

	Average 1968-70	Average 1971-73	1974	1975	1976	1977
- million lb. -						
<u>Imports</u>						
Total	36.6	39.4	82.6	77.5	98.0	79.8
<u>Production</u> (a)						
End Use						
Shortening	308.7	349.2	356.7	362.2	358.4	359.5
Margarine	146.4	150.4	183.0	201.1	222.6	227.1
Salad Oil	122.1	141.6	168.2	176.7	207.6	222.2
Lard (b)	73.2	71.2	70.7	69.8	65.5	58.7
Total	650.4	712.4	778.6	809.8	854.1	867.5
<u>Exports</u>	0.2	0.5	0.8	0.6	1.6	1.4
<u>Consumption</u>	686.8	751.3	860.4	886.7	950.5	945.9
<u>Imports as % of Consumption</u>	5.3	5.2	9.6	8.7	10.3	8.4

(a) Adjusted for inventory change.

(b) Excludes processed lard sold in bulk.

Sources: Statistics Canada, *Monthly Survey of Oils and Fats*, Catalogue No. 32-006;
Exports Merchandise Trade, Catalogue No. 65-202.

Table IV: Average Annual Domestic Consumption of Deodorized Oils, 1968-1977

End Product	1968-70	1971-73	1974-76	1977	Percentage Change 1968-70/ 1977		Percentage Distri- bution 1977	Per Capita	
					%			1968-70	1977
		-- million lb.	--			%		1b.	1b.
Shortening	313.9	360.5	385.5	380.0	+21.1	40.1		14.9	16.2
Margarine	151.5	161.7	228.6	247.5	+63.4	26.1		7.2	10.5
Salad Oil	122.1	141.6	184.2	222.2	+81.9	23.5		5.8	9.5
Lard	99.6	87.7	102.2	97.3	- 2.3	10.3		4.7	4.1
Total	687.1	751.5	900.6	946.9	+37.8	100.0		32.7	40.3

Sources: Table III.

item in 1975 and 1976 were subsequently reclassified by Customs and Excise to 1305-1.

As a corollary of these developments, it will be noted that the share of the domestic consumption of deodorized oils attributable to imports increased from 5.3 per cent in 1968-70 to 10.3 per cent in 1976. However, since the infiltration of imports has occurred in the context of a rising domestic demand (exports being negligible throughout the period), it has not been paralleled by a corresponding decline in the output of Canadian producers - indeed, this has grown almost continuously since 1968, although at a slower average rate than that for imports (3.6 per cent, as against 9.0 per cent).

Domestic Consumption

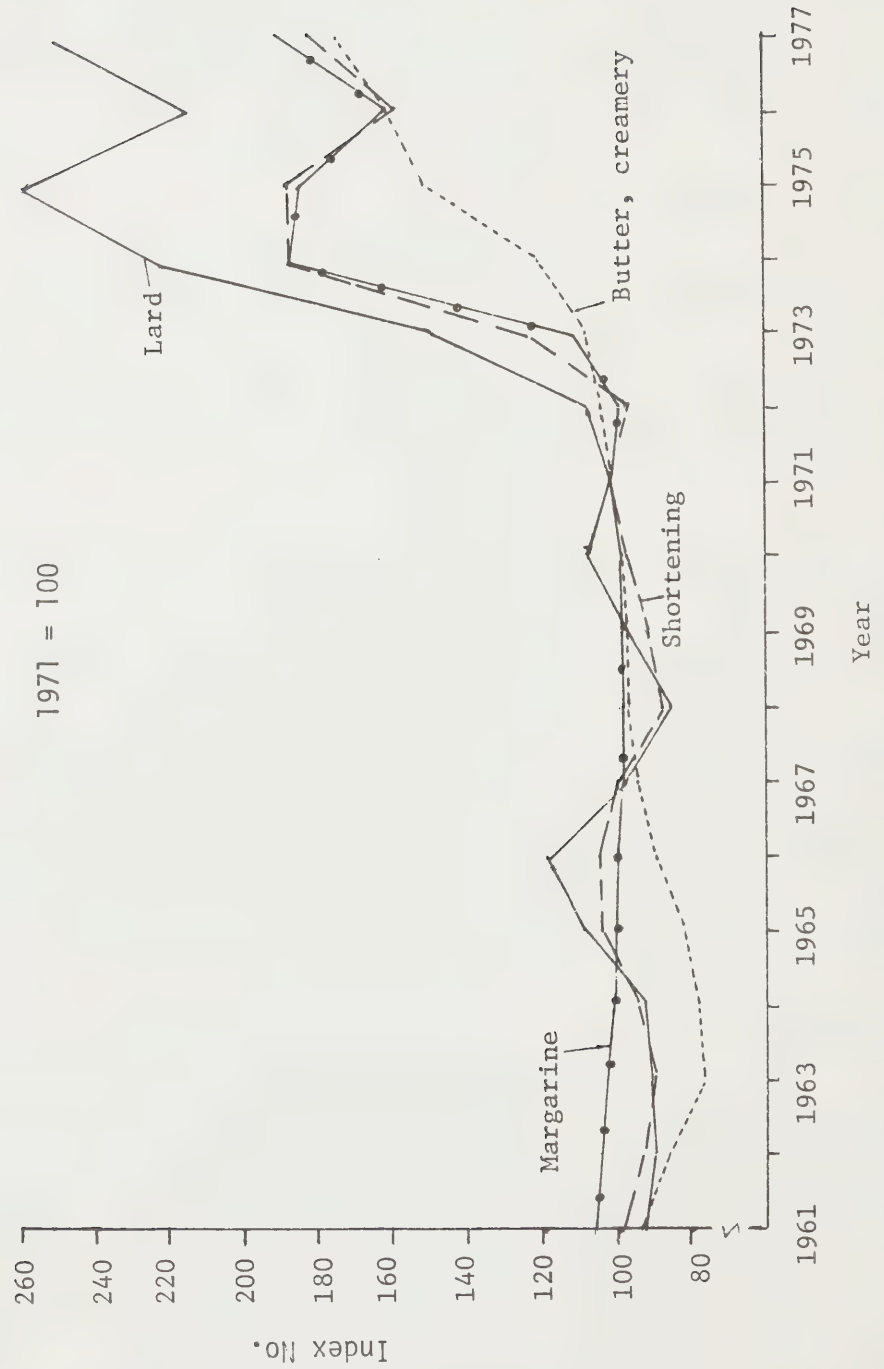
In Table IV the consumption aspects of the statistics are explored in rather greater detail. In arriving at the figures for individual products, it was necessary, due to lack of certain specific information, to allocate imports on a somewhat arbitrary basis. Thus, it was decided to credit lard with the amounts attributable to this commodity under c.c. 120-99 and to allocate the remaining imports equally between shortening and margarine. The result has possibly been to overstate the consumption of lard *per se* at the expense of other products.

However, turning to Table IV, it will be evident that, with the exception of lard, edible oil products are being consumed in increasing quantities by Canadians, both collectively as a nation and in *per capita* terms. Given rising living standards, this tendency seems likely to continue. With regard to the individual product categories, shortening accounted for approximately two-fifths of the total usage of deodorized oils in 1977, compared with one-quarter each for margarine and salad oil. However, since 1973 the domestic consumption of these latter commodities has been growing substantially more rapidly than that of shortening products. The increasing consumption of salad oil is evidently related to the growing popularity of salads. In the case of margarine, a major contributory factor in stimulating demand has doubtless been the cholesterol health issue, which has seemingly more than outweighed any negative effects due to the relative fall in the price of butter (see Diagram 2).

Domestic Production

It has already been remarked that recent market changes have not entailed any overall cut back in activity by Canadian edible oil processing establishments. A more narrow focussing upon the specific problem areas of shortening oils and margarine oils *vide* Table V, does not result in any fundamental change to this conclusion. Thus, while the refiners' own overall packaging operations have increased only moderately (either

DIAGRAM 2
 INDICES OF DOMESTIC INDUSTRY SELLING PRICES
 OF EDIBLE OIL PRODUCTS, 1961-1977



Source: Statistics Canada, *Industry Price Indexes*, Catalogue No. 62-011.

Table V: Average Annual Sales and Disposition of Bulk Deodorized Shortening Oils and Margarine Oils by Canadian Refiner-Processors, 1968-1977

Product	1968-70	1971-73	1974-76	1977	1968-70	1971-73	1974-76	1977
	- million lb. -				- percentage -			
<i>Shortening Oils</i>								
Bulk Sales:								
Packagers	13.4	17.0	23.5	30.7	2.9	3.4	4.2	5.2
Other	109.4	152.4	155.0	149.9	24.1	30.5	27.6	25.6
Sub-Total	122.8	169.4	178.5	180.5	27.0	33.9	31.8	30.8
Refiner-Packaged ^(a)	185.9	179.8	180.6	179.0	40.8	36.0	32.2	30.5
Total	308.7	349.2	359.1	359.5	67.8	69.9	64.0	61.3
<i>Margarine Oils</i>								
Bulk Sales:								
Packagers	97.9	94.2	127.0	153.8	21.5	18.9	22.6	26.2
Refiner-Packaged ^(a)	48.5	56.2	75.2	73.3	10.7	11.2	13.4	12.5
Total	146.4	150.4	202.2	227.1	32.2	30.1	36.0	38.7
Grand Total	455.1	499.6	561.3	586.6	100.0	100.0	100.0	100.0

^(a) Including oils "used for other processes," which in no year exceeded 1.3 per cent of total sales and disposition.

Sources: Table III; Appendix Tables 4 and 5.

through choice or lack of packaging capacity) sales of deodorized shortening and margarine oils to independent packagers have risen substantially - from an annual average of 111.3 million pounds in 1968-70 to 184.5 million pounds in 1977. This would seem to imply a significant expansion in the availability and/or utilization of refinery capacity. It is noteworthy that margarine packagers, as opposed to shortening packagers, accounted for the major part of the aforementioned increase in sales. At this point it will be recalled⁽¹⁾ that margarine packagers have been among the main importers of goods under tariff item 1305-1. Evidently, packaged margarine sales have outstripped imports of margarine oils. In the case of shortening oils, the situation from the standpoint of Canadian refiners is less satisfactory. As a corollary of the importations of liquid "shortening" by large industrial users under tariff item 1305-1, bulk sales of domestically refined shortening oils to "other" (non-packager) customers dropped from 173.6 million pounds in 1973 to 159.4 million pounds in 1974, further declining to 149.9 million pounds in 1977.

TARIFF CONSIDERATIONS

As a starting point for this section of the study, it would seem useful to recall that the initial spurt in imports under tariff item 1305-1 occurred in 1974, at a time of rapidly escalating raw material prices in world markets. The prices of edible oils increased more than those of most other commodities. This would seem to have had a twofold consequence so far as the present area of inquiry is concerned.

In the first place, it meant rapidly escalating costs for the processors and users of edible oils. The increase in imports under item 1305-1 may thus be viewed as an attempt on the part of certain margarine packagers and industrial users to hold down steeply rising material costs by turning to, or increasing, their usage of cheaper oils (e.g. blends of palm oil and lard) not generally available in quantity from Canadian refineries.⁽²⁾ At the same time, rising f.o.b. values doubtless made importers more aware of the relative cost advantages to be gained by a commodity classification under tariff item 1305-1, with its fixed rate of duty of 1 cent per pound. By 1974, the average price of pertinent imports had risen to almost 34 cents per pound, and the ad valorem equivalent of this specific duty had been reduced to less than 3 p.c.

Prices have fallen since 1974 but the present duty equivalent of 3-4 p.c. ad valorem is still far below the level of protection (amounting

(1) See *supra*, p. 21.

(2) Canada has long been a substantial net importer of lard (see *Reference No. 99, Conclusions*, p. 4).

to 15-25 p.c.) traditionally afforded to "lard compound" before the reductions of the Kennedy Round⁽¹⁾ and completely out of line with the duties applicable to all other processed or semi-processed edible oils and fats except lard, the latter being also subject (under tariff item 1300-1) to a specific duty of 1 cent per pound. From this, it may appear that the tariff on imports gaining entry under item 1305-1 should be raised substantially, with 17½ p.c. a self-evident choice, given the existing structure of rates.⁽²⁾

However, it is to be noted that so far as vegetable oil shortenings are concerned, an administrative ruling of Customs and Excise, dated June 1976, has already made provision for this duty adjustment by directing that imports of such shortenings should be classified *not* under item 1305-1 but variously under items 27731-1 to 27740-1 ("vegetable oils other than crude or crude degummed") and 27825-1 ("oils hydrogenated"), depending upon the particular circumstances of the case. The Board does not take issue with this directive, which is evidently grounded in the belief that the Exchequer Court judgement in the Hunt Foods case no longer applies on account of the changes introduced into the tariff for vegetable oils in 1968. Hence, the directive does not exclude from item 1305-1 shortenings containing lard and/or other animal fats.

Viewed from another angle, the aforementioned ruling of Customs and Excise would appear to explain why the Board's study of customs entry documentation for 1977, referred to earlier⁽³⁾, revealed only small quantities of vegetable oil shortening being imported under tariff item 1305-1. However, this merely confirmed an earlier analysis made by the Board with reference to the twelve-month period June 1974 - May 1975, when only 3.7 million pounds of packaged shortening of all types were recorded as being imported, compared with an annual average of 4.5 million pounds entered against the appropriate commodity class (120-49) for 1963-70⁽⁴⁾. Evidently, five years later, the Exchequer Court decision had made no perceptible impact on the pattern of trade; indeed, at no time between 1970 and 1977 would it appear that imports of packaged or plasticized shortening exceeded 2 per cent of the domestic industry's output of packaged shortening products (excluding bulk oils). Presumably, the more complex sales organization and higher distribution costs involved in marketing such products have served to provide domestic producers with adequate protection against imports of packaged shortening in spite of the relatively low tariff presently imposed under item 1305-1.

Hence, it is not surprising that during the course of the public hearing on this Reference and in subsequent discussions with representatives of the Institute of Edible Oil Foods, it became apparent that Canadian

(1) See Appendix I.

(2) See Appendix I.

(3) See *supra*, pp. 20-1.

(4) Statistics Canada, *Imports by Commodities*, Catalogue No. 65-007.

processors have not been especially concerned about imports of plasticized and packaged brands of shortening such as gave rise to the Exchequer Court decision in 1970; rather, the major threat is seen to come from bulk shipments under tariff item 1305-1 of refined and apparently deodorized liquid oils intended for further processing by margarine packagers or for direct use by food processors.⁽¹⁾

These views closely accord with the Board's own findings as reviewed elsewhere in this report. Of key importance to an understanding of the present problem situation is the fact that the bulk of imports under item 1305-1 have comprised not just liquid oils, but mixtures or blends of such oils. While the wording of this item strongly suggests that it was originally incorporated in the Customs Tariff in order to provide specifically - and seemingly, exclusively - for blends of plasticized fats, the possibility that it might be used to accommodate edible oil mixtures in liquid form had clearly not been anticipated. However, for blends of animal oils and of animal, vegetable and/or marine oils, other than those which have been completely hydrogenated, there is no alternative item to 1305-1 in the existing schedule other than the basket item 71100-1. Clearly, this can result, and has already resulted, in anomalous situations whereby, for example, a product comprising 98 per cent vegetable oil and 2 per cent animal fat is rated for duty purposes at 1 cent per pound (or 3-4 p.c. ad valorem) while a product composed entirely of vegetable oil is dutiable at 17½ p.c.

The Board is concerned that such anomalies should be rectified. In essence, what appears to be required is a tariff item which will embrace *all* mixtures or blends of oils (animal, vegetable and/or marine) in all stages or combinations of stages of production from refined to plasticized, thus removing the possibility of future uncertainties with respect to tariff classification. Such a new tariff provision would need to cover not only all categories of goods currently being imported under item 1305-1 but also mixtures of vegetable oils presently falling under item 27740-1 as well as the miscellany of hydrogenated oils now classifiable to item 27825-1. Deletion of the latter item should not cause any problem with respect to the classification of oils which have been subjected to the chemical processes of dehydration⁽²⁾ and blowing, since these could be accommodated under their respective commodity items - e.g. blown castor oil would fall under 27740-1 ("all other n.o.p. vegetable oils").

In making the following recommendations, the Board wishes to point out that its preference with regard to the amount of tariff protection has been influenced primarily by the adjuged need to achieve

(1) *Transcript*, pp. 33, 71.

(2) Linseed appears to be the only oil which contains ricinoleic acid necessary for dehydration.

conformity with prevailing rates of duty on commodities essentially similar in character to those reclassified to tariff item 1305-1, and not by any conviction on the part of the Board concerning the present appropriateness of these rates of duty *per se*. In order to justify fully a M.F.N. tariff of $17\frac{1}{2}$ p.c. (or something less, should this seem desirable) a very much more comprehensive study than that herewith submitted would be required. Such a study would call for a detailed review of all the ground covered in *Reference No. 131* with respect to oil seeds, vegetable oils and related products, as well as demanding a detailed analysis of production, trade and tariff considerations with regard to animal oils and fats and their products. Bearing in mind the need to provide the domestic industry with conditions conducive to further investment in the future, the Board deemed that a report which would permit early rectification of the existing anomalous situation was presently preferable to a more detailed study, the more so since the latter does not appear to be called for under the terms of reference given by the Minister.

Two further issues warrant mention:

First, under the New Zealand Trade Agreement, effective May 24, 1932, there is a provision for free entry of "lard compound and similar substances" imported from that country. This provision would be affected by the deletion of tariff item 1305-1 and the change of wording proposed by the Board.

Secondly, also with respect to commodities classifiable under tariff item 1305-1, a rate of duty of $\frac{1}{2}$ cent per pound is currently in effect under the General Preferential Tariff, terminating June 30, 1984. There have been no pertinent imports under this Schedule since its inception and the Board therefore proposes to make no special recommendations in this regard.


RECOMMENDED SCHEDULE


1. That Schedule "A" to the Customs Tariff be amended by striking out therefrom the following tariff items with their enumerations of goods and rates of duty: 1305-1 and 27825-1.
2. That Schedule "A" to the Customs Tariff be amended by striking out from tariff item 27740-1 the words "and mixtures of vegetable oils, n.o.p."

3. That Schedule "A" to the Customs Tariff be amended by inserting therein the following tariff item, enumeration of goods and rates of duty:

<u>Tariff Item</u>	<u>Goods Subject to Duty and Free Goods</u>	<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
I	Mixtures of oils, fats or greases of animal, marine or vegetable origin	12½ p.c.	17½ p.c.	25 p.c.	-


First Vice-Chairman


Member


Member

September 30, 1978

TARIFF HISTORY

The Canadian Customs Tariff made provision for animal, vegetable and fish oils and fats at least as far back as 1879. Generally speaking, the animal fats were dutiable and the vegetable oils, other than linseed and olive oils, were free of duty. Relatively few of the oils were specifically mentioned in the Customs Tariff and it was not until the general revision of the tariff structure in 1906 that provision was made for oils designated for particular uses. Many of the tariff items dealing with vegetable oils carried no rates of duty until 1932 when, under the terms of the United Kingdom-Canada Trade Agreement, a margin of preference of 10 per cent was accorded to the products of countries covered by the British Preferential Tariff.

Changes in the tariff treatment of those individual edible oil products most pertinent to this Reference are reviewed below.

LARD AND LARD COMPOUND

1879, May 15 Lard was among the commodities specifically treated in the Canadian Customs Tariff in 1879, when a distinction was drawn between the crude and refined categories of product - viz.:

Item (no number)

<i>Untried lard</i>	<i>1½ cts. per lb.</i>
<i>Rendered lard</i>	<i>2 cts. per lb.</i>

1894, March 27 Subsequently, this distinction was dropped in a new tariff item whereby coverage was extended to include "lard compound and similar substances." Provision was also made for a product known as "cottolene," this being the trade name for a compound shortening composed of cottonseed oil and oleostearin introduced by N.K. Fairbanks Company of Chicago in 1887:

Item 18

<i>Lard, lard compound and similar substances, cottolene and animal stearine of all kinds, n.e.s.</i>	<i>2 cts. per lb.</i>
---	-----------------------

1906, November 30 With the introduction of the three-column tariff, item 18 became item 13, there being no significant changes in the commodity description:

<u>Item 13</u>	<u>B.P.</u>	<u>Inter- mediate</u>	<u>Gen.</u>
<i>Lard, lard compound and similar substances; cottolene and animal stearine of all kinds, n.o.p.</i>			
<i>.....cts. per lb.</i>	$1\frac{1}{2}$	$1\frac{3}{4}$	2

1932, May 24 New Zealand Trade Agreement - Free

1950, June 1 Item 13 was split into two parts (items 13 and 13a), a distinction seemingly being drawn between products composed wholly of animal fats, on the one hand, and blended products, on the other. The rates of duty remained unchanged:

<u>Item 13</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Lard and animal stearine of all kinds, n.o.p.</i>			
<i>.....cts. per lb.</i>	$1\frac{1}{2}$	$1\frac{3}{4}$	2

Item 13a

<i>Lard compound and similar substances; cottolene</i>			
<i>.....cts. per lb.</i>	$1\frac{1}{2}$	$1\frac{3}{4}$	2

1956, March 31 The reference to "cottolene" in item 13a was deleted, apparently because production of this brand product had ceased. At the same time, an n.o.p. rider was added to the item, presumably because of possible conflict with item 277:

<u>Item 13a</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Lard compound and similar substances, n.o.p.</i>			
<i>.....cts. per lb.</i>	$1\frac{1}{2}$	$1\frac{3}{4}$	2

1965, August 1 Item 13 became 1300-1
Item 13a became 1305-1

1968, January 1 First phase of GATT-inspired graduated reductions in rates of duty on edible oil products. No changes in commodity descriptions.

<u>Item 1300-1</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Lard and animal stearine of all kinds, n.o.p.</i>			
<i>.....cts. per lb.</i>	1.40	1.60	2

Item 1305-1

<i>Lard compound and similar substances, n.o.p.</i>			
<i>.....cts. per lb.</i>	1.40	1.60	2

1969, June 4 Final phase of GATT-negotiated tariff reductions put into effect:

<u>Item 1300-1</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Lard and animal stearine of all kinds, n.o.p.</i>			
<i>.....cts. per lb.</i>	1	1	2

Item 1305-1

<i>Lard compound and similar substances, n.o.p.</i>			
<i>.....cts. per lb.</i>	1	1	2

1974, July 1 G.P.T. rates of $\frac{1}{2}$ ct. per lb. introduced into items 1300-1 and 1305-1 with effect until 1984, June 30.

HYDROGENATED OILS

Prior to April 1951, it appears that hydrogenated oils (animal and/or vegetable) were most usually admitted under the general basket tariff item 711 ("all goods not enumerated in this schedule"); other items were also apparently used according to the nature of the material.

Changes in the rates of duty applicable under item 711 before April 1951⁽¹⁾ were as follows:

1879, May 15 - 20 p.c.

	<u>B.P.</u>	<u>Intermediate/ M.F.N.</u>	<u>Gen.</u>
<u>1906, November 30</u>	15 p.c.	17½ p.c.	20 p.c.
<u>1910, March 31</u>	15 p.c.	17½ p.c.	17½ p.c.
<u>1931, June 2</u>	15 p.c.	25 p.c.	25 p.c.
<u>1933, June 10</u>			
Canada-France Agreement:		15 p.c.	
<u>1939, January 1</u>			
United States Trade Agreement:		20 p.c.	
<u>1948, January 1</u>			
GATT:		20 p.c.	

April 11, 1951 A special item for hydrogenated oils was established carrying similar rates of duty to those then applicable under tariff item 711 - viz.:

<u>Item 277</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Oils, hydrogenated, blown, dehydrated or sulphonated, not including blown or hydrogenated fish, seal or whale oils</i>	15 p.c.	20 p.c.	25 p.c.

This item was evidently intended to encompass oils used for both edible and inedible purposes. It was also apparently designed to have general application across the whole field of hydrogenated etc., animal fats and vegetable oils, no limitations being imposed with respect to the origins of oils admissible under the item other than that they should not be of marine extraction.

(1) Subsequently, the M.F.N. rate under renumbered item 71100-1 was reduced to 17½ p.c. effective June 4, 1969, while a G.P.T. rate of 11½ p.c. was introduced on July 1, 1974.

In reporting, in 1963, on *Reference No. 131: Oil-Seeds, Vegetable Oils and Related Products*, the Board recommended⁽¹⁾ that the above item 277 should be deleted from the Customs Tariff. With the deletion of this item, it was envisaged that any hydrogenated etc., vegetable oils would then become dutiable under a new tariff item bearing the designation of "vegetable oils other than crude or crude degummed: all other n.o.p., and mixtures of vegetable oils, n.o.p." and carrying recommended rates of duty of 12½ p.c. B.P., 17½ p.c. M.F.N., and 25 p.c. Gen.; at the same time, it was thought that any hydrogenated etc., oils wholly or partly of animal origin would again become dutiable (as apparently they had been prior to April 1951) under the general basket item 711, no changes in rates of duty being proposed. In the event, the Board's recommendation for the deletion of tariff item 277 was not adopted.

1965, August 23 Item 277 became item 27700-1.

1968, January 1 Item 27700-1 was renumbered as 27825-1, while in line with the Board's recommendation in *Reference No. 131*, the B.P. and M.F.N. rates of duty were reduced by 2½ percentage points - viz.:

<u>Item 27825-1</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Oils, hydrogenated, blown, dehydrated or sulphonated, not including blown or hydrogenated fish, seal or whale oils</i>	<i>12½ p.c.</i>	<i>17½ p.c.</i>	<i>25 p.c.</i>

1969, January 1 The word "sulphonated" was deleted from the commodity description of item 27825-1 on account of provision being made for various sulphonates in the new tariff schedule for chemicals adopted following the report of the Board on *Reference No. 120: Chemicals*, tabled in parts in 1966 and 1967. Thus:

<u>Item 27825-1</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Oils, hydrogenated, blown or dehydrated, not includ- ing blown or hydrogenated fish, seal or whale oils ..</i>	<i>12½ p.c.</i>	<i>17½ p.c.</i>	<i>25 p.c.</i>

(1) Pp. 71,73,83,86,97,98,189.

REFINED VEGETABLE OILS

Before 1968 refined vegetable oils were not treated in any consistent or systematic manner in the Customs Tariff. Some such oils were individually specified in the Schedule, while other oils and mixtures thereof were dutiable under the general basket item 711 (or 71100-1 as it became on August 23, 1965). In 1939 it was possible for the Board to report that "a majority of the processed [vegetable] oils are classified under this item [711]"⁽¹⁾, the processed oils apparently encompassing refined, hydrogenated and plasticized forms. Subsequently, as already mentioned, hydrogenated oils were consigned to a separate tariff item in April 1951, while certain individual refined oils (notably palm and palm kernel, peanut, soya bean and corn) became admissible under new items variously established in June 1950 and March 1956.

1968, January 1 Implementation of recommendations made by the Board in 1963⁽²⁾ for the establishment of a series of tariff items under the general umbrella of "vegetable oils other than crude, or crude degummed." - viz.:

Vegetable Oils, Other Than Crude or Crude Degummed:

<u>Item 27731-1</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Cocoanut</i>	12½ p.c.	17½ p.c.	25 p.c.
<u>Item 27732-1</u>			
<i>Corn</i>	12½ p.c.	17½ p.c.	25 p.c.
<u>Item 27733-1</u>			
<i>Cottonseed</i>	12½ p.c.	17½ p.c.	25 p.c.
<u>Item 27734-1</u>			
<i>Palm</i>	12½ p.c.	17½ p.c.	25 p.c.
<u>Item 27735-1</u>			
<i>Palm kernel</i>	12½ p.c.	17½ p.c.	25 p.c.
<u>Item 27736-1</u>			
<i>Peanut</i>	12½ p.c.	17½ p.c.	25 p.c.

(1) Tariff Board, Report: Reference No. 99 - Animal and Vegetable Oils, Fats and Greases (1939), p. 31.

(2) Reference No. 131, pp. 83-6.

Vegetable Oils, Other Than Crude or Crude Degummed: (concl.)

<u>Item 27737-1</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>
<i>Rape seed</i>	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	25 p.c.
<u>Item 27738-1</u>			
<i>Soya bean</i>	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	25 p.c.
<u>Item 27739-1</u>			
<i>Sunflower seed</i>	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	25 p.c.
<u>Item 27740-1</u>			
<i>All other, n.o.p., and mix- tures of vegetable oils, n.o.p.</i>	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	25 p.c.

1974, July 1 G.P.T. rates of $12\frac{1}{2}$ p.c. introduced into items 27731-1, 27733-1, 27734-1, 27735-1 and 27736-1 with effect until 1984, June 30.

TARIFF PROPOSALS OF INSTITUTE OF EDIBLE OIL FOODS AND (IN ITALICS) EXISTING TARIFF TREATMENT

Tariff Item	Goods Subject to Duty and Free Goods	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
1300-1 <i>1300-1</i>	Lard, not further processed than rendered <i>Crude lard.....per pound</i>	10 p.c. <i>1 ct.</i>	10 p.c. <i>1 ct.</i>	20 p.c. <i>2 cts.</i>
1300-2 <i>1400-1</i>	Tallow, not further processed than rendered <i>Crude tallow .....per pound</i>	Free <i>Free</i>	10 p.c. <i>10 p.c.</i>	20 p.c. <i>20 p.c.</i>
1300-3 <i>1300-1</i>	Animal stearine of all kinds, n.o.p. <i>Animal stearine of all kinds, n.o.p. ..per pound</i>	12½ p.c. <i>1 ct.</i>	17½ p.c. <i>1 ct.</i>	25 p.c. <i>2 cts.</i>
1400-1 <i>1300-1</i> <i>1305-1</i>	All oils and fats, and products thereof, with or without additives, n.o.p. <i>Refined lard .....per pound</i> <i>"Lard compound and similar substances, n.o.p." ..per pound</i>	12½ p.c. <i>1 ct.</i>	17½ p.c. <i>1 ct.</i>	25 p.c. <i>2 cts.</i>
1400-1 <i>25900-1</i> <i>71100-1</i> <i>27825-1</i> <i>93819-1</i>	Refined tallow <i>Lard oil</i> <i>Tallow oil</i> <i>Hydrogenated oils not absorbed into existing items 27731-1 to 27740-1</i> <i>Chemically-treated oils and fats</i>	1 ct. <i>Free</i> <i>15 p.c.</i> <i>15 p.c.</i> <i>12½ p.c.</i> <i>10 p.c.</i>	1 ct. <i>10 p.c.</i> <i>17½ p.c.</i> <i>17½ p.c.</i> <i>17½ p.c.</i> <i>15 p.c.</i>	2 cts. <i>20 p.c.</i> <i>25 p.c.</i> <i>25 p.c.</i> <i>25 p.c.</i> <i>25 p.c.</i>
25900-1 <i>25900-1</i>	Neat's foot oil <i>Neat's foot oil</i>	15 p.c. <i>15 p.c.</i>	17½ p.c. <i>17½ p.c.</i>	25 p.c. <i>25 p.c.</i>

CANADIAN EDIBLE OIL PROCESSORS

The following is a list of firms reporting to Statistics Canada as at December 1977 in connection with that agency's *Monthly Survey of Oils and Fats*, published in Catalogue No. 32-006.

<u>Name of Firm</u>	<u>Plant Location</u>	<u>Type of Operation+</u>
<u>Newfoundland</u>		
Nfld. Margarine Co. Ltd., The	St. John's	(1)
<u>Nova Scotia</u>		
R.B. Colwell Limited	Elmsdale	(1)
<u>Quebec</u>		
Bergeron & Fils Ltée, J.E.	Bromptonville	(1)
Bernard Ltée, Léo	Shawinigan	(1, 2, 3)
Canada Starch Co. Ltd. (Best Food Ltd. Plant)	Montréal	(3)
Canada Packers Ltd.	Montréal	(1, 2, 3)
Kraft Limited	Mount Royal	(1, 2, 3)
W.J. Lafave & Sons Ltd.	St. Jérôme	(2)
Les Produits Blanchet Inc.	Rock Forest	(1)
Procter & Gamble Co. of Canada Ltd.	Pointe Claire	(1, 2, 3)
Thibault Inc., D.P.M.	Ste-Anne-De-La Pêrade	(1)
<u>Ontario</u>		
Canada Packers Ltd.	Toronto	(1, 2, 3)
Canada Packers Ltd. (Canadian Veg. Oil Processing Div.)	Hamilton	(4)
Canada Starch Co. Ltd.	Cardinal	(3)
Dundas Valley Food Products Ltd.	Burlington	(2)
Gay Lea Foods	Weston	(1, 3)
Grant Products Ltd.	Don Mills	(1)
Maple Leaf Mills Ltd.	Toronto	(4)
Monarch Fine Foods Ltd. (Lever & Monarch Plants)	Rexdale	(1, 2, 3)
Oriole Foods Ltd.	Oakville	(1)
Procter & Gamble Co. of Canada Ltd.	Hamilton	(1, 2, 3)
Schneider Ltd., J.M.	Kitchener	(2)
Standard Brands Ltd.	Scarborough	(1, 2)
	Etobicoke	(3)

<u>Name of Firm</u>	<u>Plant Location</u>	<u>Type of Operation+</u>
<u>Ontario (cont.)</u>		
St. Lawrence Starch Co. Ltd.	Port Credit	(3)
Swift Canadian Co. Ltd.	Toronto	(1, 2)
Victoria Soya Mill Ltd.	Toronto	(4)
<u>Manitoba</u>		
Canada Packers Ltd.	St. Boniface	(1, 2)
CSP Foods Ltd.	Altona	(3, 4)
Swift Canadian Co. Ltd.	St. Boniface	(2)
<u>Saskatchewan</u>		
CSP Foods Ltd.	Nipawin	(1,2,3,4)
	Saskatoon	(4)
<u>Alberta</u>		
Burns Foods Ltd.	Calgary	(2)
Canada Packers Ltd.	Edmonton	(2)
Canbra Foods Ltd.	Lethbridge	(1,2,3,4)
Swift Canadian Co. Ltd.	Edmonton	(2)
Standard Brands Ltd.	Calgary	(1, 2)
United Oilseed Products Ltd.	Lloydminster	(4)
Euro-Can Trade Ltd. (N.A.R.P. Co-op & Co. - Sexsmith)	Edmonton	(4)
<u>British Columbia</u>		
CSP Foods Ltd.	Vancouver	(1, 2, 3)
	North Burnaby	(1, 2, 3)
Canada Packers Ltd.	Vancouver	(2, 3)

+ (1) Margarine. (2) Shortening. (3) Salad Oil. (4) Vegetable Oil Mills.

STATISTICAL TABLES

TABLE 1: EDIBLE OILS AND FATS: PERCENTAGE DISTRIBUTION OF VOLUME OF IMPORTS OF DIFFERENT CATEGORIES OF PRODUCT UNDER SELECTED TARIFF ITEMS BY TARIFF ITEM. AVERAGE OF FOUR MONTHS, 1977

	Tariff Item				
	1300-1	1305-1	27740-1	27825-1	71100-1
				- per cent -	Total
PLASTICIZED					
Vegetable Oils	..	76.8	7.7	12.4	3.0
Industrial Users	-	36.3	41.3	6.5	15.9
Edible Oil Processors	-	-	50.0	39.1	10.9
Others	-	80.1	17.2	-	2.7
	-	4.4	60.8	6.8	28.1
Animal Fats	-	100.0	-	-	100.0
Industrial Users	-	100.0	-	-	100.0
Edible Oil Processors	-	100.0	-	-	100.0
Others	-	-	-	-	-
Blends (a)	-	99.0	0.2	0.1	0.7
Industrial Users	-	98.2	-	0.2	1.6
Edible Oil Processors	-	100.0	-	-	-
Others	-	99.6	0.4	-	-
Not Specified	0.3	7.1	24.2	61.1	7.4
Industrial Users	-	-	0.5	99.5	-
Edible Oil Processors	-	31.3	-	-	68.8
Others	0.5	9.0	49.0	38.4	3.0
LIQUID					
Vegetable Oils	28.8	55.6	2.8	12.7	0.1
Industrial Users	-	2.9	13.8	83.4	-
Edible Oil Processors	-	38.9	-	61.1	-
Others	-	-	12.8	87.2	-
	-	-	76.3	76.3	-
Animal Fats	57.0	43.0	-	-	-
Industrial Users	47.1	52.9	-	-	-
Edible Oil Processors	57.6	42.4	-	-	-
Others	-	100.0	-	-	-
Blends (a)	-	99.9	-	-	0.1
Industrial Users	-	100.0	-	-	-
Edible Oil Processors	-	99.8	-	-	0.2
Others	-	-	-	-	-

TABLE 1: EDIBLE OILS AND FATS: PERCENTAGE DISTRIBUTION OF VOLUME OF IMPORTS OF DIFFERENT CATEGORIES OF PRODUCT UNDER SELECTED TARIFF ITEMS BY TARIFF ITEM. AVERAGE OF FOUR MONTHS, 1977

	Tariff Item				
	<u>1300-1</u>	<u>1305-1</u>	<u>27740-1</u>	<u>27825-1</u>	<u>71100-1</u>
				- per cent -	<u>Total</u>
LIQUID (cont.)					
<i>Not Specified</i>	-				
Industrial Users	-	7.4	49.6	39.6	3.4
Edible Oil Processors	-	-	56.1	43.9	-
Others	-	15.4	63.0	100.0	-
				14.4	7.1
Total	27.0	57.0	3.1	12.7	0.3
					100.0

(a) Mixtures of vegetable oils and animal fats.

Source: Tariff Board study.

TABLE 2: EDIBLE OILS AND FATS: PERCENTAGE DISTRIBUTION OF VOLUME OF IMPORTS UNDER SELECTED TARIFF ITEMS BY CATEGORY OF PRODUCT. AVERAGE OF FOUR MONTHS, 1977

	Tariff Item					Total
	1300-1	1305-1	27740-1	27825-1	71100-1	
	- per cent -					
PLASTICIZED	..	8.8	16.1	6.4	72.3	6.5
<i>Vegetable Oils</i>	-	0.3	6.0	0.2	26.2	0.4
Industrial Users	-	-	0.6	0.1	1.5	..
Edible Oil Processors	-	0.3	1.1	-	1.9	0.2
Others	-	..	4.3	0.1	22.8	0.2
<i>Animal Fats</i>	-	0.5	-	-	-	0.3
Industrial Users	-	0.1	-	-	-	0.1
Edible Oil Processors	-	0.3	-	-	-	0.2
Others	-	-	-	-	-	-
<i>Blends (a)</i>	-	7.9	0.3	..	11.9	4.5
Industrial Users	-	3.5	-	..	11.9	2.0
Edible Oil Processors	-	0.4	-	-	-	0.2
Others	-	4.0	0.3	-	-	2.3
<i>Not Specified</i>	..	0.2	9.9	6.1	34.3	1.3
Industrial Users	-	-	0.1	4.2	-	0.5
Edible Oil Processors	-	0.1	-	-	27.5	0.1
Others	..	0.1	9.8	1.9	6.8	0.6
LIQUID	100.0	91.2	83.9	93.6	27.7	93.5
<i>Vegetable Oils</i>	-	0.7	59.7	88.9	-	13.5
Industrial Users	-	0.7	-	4.8	-	1.0
Edible Oil Processors	-	-	41.8	69.9	-	10.2
Others	-	-	17.9	14.2	-	2.4
<i>Animal Fats</i>	100.0	35.8	-	-	-	47.3
Industrial Users	2.9	1.5	-	-	-	1.7
Edible Oil Processors	97.1	33.9	-	-	-	45.5
Others	-	0.4	-	-	-	0.2
<i>Blends (a)</i>	-	54.6	-	-	8.8	31.1
Industrial Users	-	31.2	-	-	-	17.8
Edible Oil Processors	-	23.4	-	-	8.8	13.4
Others	-	-	-	-	-	-
<i>Not Specified</i>	-	0.2	24.1	4.7	18.9	1.5
Industrial Users	-	-	9.4	1.8	-	0.5
Edible Oil Processors	-	-	-	2.1	-	0.3
Others	-	0.2	14.7	0.8	18.9	0.7
	100.0	100.0	100.0	100.0	100.0	100.0

(a) Mixtures of vegetable oils and animal fats.

Source: Tariff Board study.

TABLE 3: EDIBLE OILS AND FATS: AVERAGE COST PER POUND OF IMPORTS UNDER
SELECTED TARIFF ITEMS, BY CATEGORY OF PRODUCT. AVERAGE OF
FOUR MONTHS, 1977

	Tariff Item					Total
	1300-1	1305-1	27740-1	27825-1	71100-1	
	- cents per pound -					
PLASTICIZED	30.0	32.5	38.7	55.9	38.7	36.0
<i>Vegetable Oils</i>	-	44.4	52.0	69.8	28.4	46.7
Industrial Users	-	-	89.5	62.8	33.6	73.0
Edible Oil Processors	-	43.4	47.5	-	33.9	43.8
Others	-	61.7	48.0	76.5	27.6	44.8
<i>Animal Fats</i>	-	31.9	-	-	-	31.9
Industrial Users	-	25.7	-	-	-	25.7
Edible Oil Processors	-	34.6	-	-	-	34.6
Others	-	-	-	-	-	-
<i>Blends (a)</i>	-	31.5	40.0	52.6	46.0	31.7
Industrial Users	-	30.2	-	52.6	46.0	30.5
Edible Oil Processors	-	40.7	-	-	-	40.7
Others	-	31.7	40.0	-	-	31.8
<i>Not Specified</i>	30.0	59.8	30.5	55.4	44.0	48.8
Industrial Users	-	-	34.9	55.9	-	55.8
Edible Oil Processors	-	50.8	-	-	44.3	46.3
Others	30.0	65.3	30.5	54.3	43.0	43.1
LIQUID	20.7	29.8	44.1	40.5	36.3	28.9
<i>Vegetable Oils</i>	-	33.3	44.4	39.4	-	39.9
Industrial Users	-	33.3	-	37.3	-	35.7
Edible Oil Processors	-	-	33.0	38.3	-	37.7
Others	-	-	71.0	45.4	-	51.5
<i>Animal Fats</i>	20.7	25.0	-	-	-	22.5
Industrial Users	23.0	25.2	-	-	-	24.2
Edible Oil Processors	20.6	24.9	-	-	-	22.4
Others	-	37.2	-	-	-	37.2
<i>Blends (a)</i>	-	32.9	-	-	58.0	32.9
Industrial Users	-	30.3	-	-	-	30.3
Edible Oil Processors	-	36.4	-	-	58.0	36.4
Others	-	-	-	-	-	-
<i>Not Specified</i>	-	28.2	43.5	61.0	26.2	48.5
Industrial Users	-	-	37.1	65.5	-	49.6
Edible Oil Processors	-	-	-	56.4	-	56.4
Others	-	28.2	47.1	62.5	26.2	44.9
Total	20.7	30.0	43.2	41.5	38.0	29.4

(a) Mixtures of vegetable oils and animal fats.

Source: Tariff Board study.

TABLE 4: MANUFACTURERS' SALES OF SHORTENING AND
DEODORIZED SHORTENING OIL, 1968-1977

	<u>Packaged</u>		<u>Bulk^(a)</u>		<u>Used for Other</u>
	<u>Retail</u>	<u>Commercial</u>	<u>Packagers^(b)</u>	<u>Other</u>	<u>Processes</u>
	(20 pounds or less)	(21-450 pounds)			
- thousands of pounds -					
1968	46,770	145,532	10,004	90,025	4,604
1969	45,495	151,013	19,573	106,642	5,480
1970	43,708	144,111	10,532	131,506	4,545
1971	41,585	147,164	10,377	131,909	4,193
1972	38,402	156,078	19,239	151,702	4,407
1973	38,676	164,981	21,365	173,626	4,405
1974	38,486	161,891	19,500	159,411	4,895
1975	51,172	150,599	17,654	159,760	4,874
1976	56,671	143,263	33,342	145,864	5,039
1977	57,418	142,110	30,654	149,871	5,554

TABLE 5: MANUFACTURERS' SALES OF MARGARINE AND
DEODORIZED MARGARINE OIL, 1968-1977

	<u>Packaged</u>		<u>Bulk</u> ^(a)	<u>Used for Other</u> <u>Processes</u>
	<u>Retail</u> (20 pounds or less)	<u>Commercial</u> (21-450 pounds)	<u>Sales to Packagers</u> ^(b)	
	- thousands of pounds -			
1968	190,793	3,703	94,848	1,021
1969	198,171	4,926	104,795	450
1970	191,324	6,961	94,066	454
1971	193,968	5,292	82,424	292
1972	205,117	6,333	92,109	303
1973	203,636	13,692	108,192	225
1974	226,343	13,975	115,308	628
1975	252,628	11,258	123,513	472
1976	257,923	21,253	142,258	413
1977	278,641	22,498	153,771	X

(a) Tank cars, tank trucks etc.

(b) Not additive to "packaged sales."

Source: Statistics Canada, *Monthly Survey of Oils and Fats*, Catalogue No. 32-006.

TABLE 6: MANUFACTURERS' SALES OF DEODORIZED
SALAD OILS, 1968-1977

	Packaged		Bulk ^(a)		Used for Other
	Retail (20 pounds or less)	Commercial (21-450 pounds)	Bottlers	Other ^(b)	Processes
- thousands of pounds -					
1968	39,707	13,909	32,896	33,530	27,555
1969	39,604	12,972	33,326	33,550	27,953
1970	41,529	16,510	30,205	32,585	27,904
1971	43,911	19,358	28,500	34,194	29,614
1972	48,877	23,616	36,173	37,471	32,754
1973	56,500	19,045	37,346	39,851	35,946
1974	63,947	18,671	45,627	43,573	37,251
1975	69,972	17,008	45,422	47,155	35,961
1976	72,921	17,748	72,779	47,156	40,460
1977	80,407	19,404	82,544	42,207	42,648

(a) Tank cars, tank trucks etc.

(b) Not additive to "packaged sales."

Source: Statistics Canada, *Monthly Survey of Oils and Fats*, Catalogue No. 32-006.

TABLE 7: SHIPMENTS OF LARD AND TALLOW BY CANADIAN PROCESSORS, 1968-1977

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
	- thousands of pounds -									
Lard										
Rendered and sold as such	..	10,396	7,376	6,528	3,701	4,412	X	X	X	X
Retail Package, 20 lb. or less	33,855	32,638	34,748	39,083	29,674	27,967	28,617	28,941	30,161	22,227
Commercial Package, 21-450 lb.	43,900	37,269	37,104	39,633	40,473	35,702	42,081	40,644	36,462	36,102
Bulk Sales	29,316	35,058	40,945	53,266	48,083	43,066	37,978	26,419	23,749	30,691
Total Processed	107,071	104,965	112,797	131,982	118,230	106,735	108,676	96,004	90,372	89,020
Tallow, edible	49,664	44,950	42,115	38,786	43,902	40,734	37,222	37,478	36,240	29,312

Source: Statistics Canada, *Monthly Survey of Oils and Fats*, Catalogue No. 32-006.

TABLE 8: UNITED STATES WHOLESALE AND RETAIL PRICES PER POUND
FOR SELECTED FATS AND OILS, 1966-1977

1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977

- U.S. cents per pound -

WHOLESALE (a)

Animal Fats and Oils

Chicago:

Tallow, ed. loose
Lard, loose
Lard, refined
1 & 2 lb. prints

Crude Vegetable Oils

Decatur:

Soybean, f.o.b.
Corn, f.o.b.
S.E. Mills:
Cottonseed, f.o.b.
Peanut, f.o.b.

New York:

Coconut, f.o.b.
Palm, Congo, f.o.b.
Safflower

Refined Vegetable Oils

New York:

Soybean
Cottonseed
Corn
Peanut
Rapeseed (denatured)
Palm, clarified, drums,
f.o.b.

Vegetable Oil End Products

New York:

Shortening, hydrog.
440-lb. drums

11.3 7.5 6.3 9.3 11.2 10.8 18.1 18.4 26.8 24.3 16.5 21.2
11.2 7.8 6.2 9.7 11.6 10.8 10.4 19.8 28.5 30.9 17.8 21.3
17.1 13.6 12.2 15.4 16.8 15.7 15.8 25.4 34.5 35.9 24.3 34.3

11.6 9.6 8.2 9.1 12.0 12.6 10.6 19.8 35.8 25.4 18.8 23.8
16.1 12.4 15.2 14.0 16.5 19.8 16.4 22.6 40.7 32.4 25.8 30.7

14.3 11.8 13.1 11.0 13.5 15.3 11.8 19.8 38.0 27.6 23.9 24.3
13.7 11.9 13.2 13.7 15.9 17.4 17.0 23.0 46.4 38.8 31.5 29.8

13.3 14.5 16.7 13.8 17.1 14.5 10.7 24.5 53.3 20.3 20.9 28.4
12.7 12.6 12.0 11.2 13.2 13.3 10.6 14.6 26.9 27.9
16.2 14.6 14.7 15.6 16.3 18.3 18.9 19.6 28.4 64.1 47.9 41.5

13.5 11.8 10.2 11.0 13.8 14.3 12.1 21.2 37.3 28.6 24.1 29.0
16.9 14.5 16.4 15.0 17.5 19.5 15.8 23.5 41.9 32.7 29.7 30.5
19.2 15.4 18.5 17.2 19.7 22.9 19.3 26.1 44.7 36.7 30.9 36.5
16.4 14.4 15.9 16.6 18.9 20.6 20.4 25.9 49.4 43.0 36.6 36.3
15.4 15.2 14.4 13.8 16.4 17.5 17.5 17.5 36.8 56.2 43.5 39.0
15.1 14.8 14.5 12.5 15.9 15.1 14.9 15.0 37.8

21.8 20.7 20.8 21.9 23.3 24.9 24.7 35.1 58.6 45.0 36.2 38.9

TABLE 8: UNITED STATES WHOLESALE AND RETAIL PRICES PER POUND
FOR SELECTED FATS AND OILS, 1966-1977 (concl.)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
- U.S. cents per pound -												
WHOLESALE (a)												
<u>Vegetable Oil End Products</u>												
<i>Eastern U.S.</i>												
Shortening, hydrog.												
3-lb. tins, del.	27.1	26.5	25.5	25.9	29.4	32.0	31.9	36.5	56.8	57.2	..	..
Margarine col'd. del.	26.6	25.7	25.6	26.0	28.9	30.8	31.3	34.0	51.2	52.5	44.3	50.7
RETAIL												
<i>Leading Cities</i>												
Shortening	30.0	29.4	28.0	27.5	29.6	32.2	32.4	36.8	59.7	63.6	51.2	53.9
Margarine	28.7	28.6	27.9	27.8	29.8	32.7	33.1	37.4	57.4	62.9	52.6	57.2
Cooking and Salad Oils	38.6	38.0	35.4	34.7	37.7	42.2	42.9	47.0	71.1	77.2	63.5	74.3
Butter	82.2	83.7	83.6	84.6	86.6	87.6	87.1	91.6	94.5	102.5	126.1	133.1

(a) Tank cars or tanks unless otherwise specified.

Source: Economic Research Service, U.S. Department of Agriculture, *Fats and Oils Situation* (Quarterly).

CAI
FN 55
-78R55

100-100-100
100-100-100



EXEMPTION FROM DUTIES FOR CERTAIN INSTITUTIONS AND GOODS

REFREND
155

AMOUNT BY
THE FADIE BOARD

REFERENCE No. 155

A REPORT OF AN INQUIRY

by the

TARIFF BOARD

into

**EXEMPTION FROM DUTIES FOR
CERTAIN INSTITUTIONS AND GOODS**

UNDER TARIFF ITEMS 69605-1 AND 69610-1

This report, made pursuant to an order by the Minister of Finance and signed by the Board on August 31, 1978, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.

© Minister of Supply and Services Canada 1978

Available by mail from

Printing and Publishing
Supply and Services Canada
Hull, Québec, Canada K1A 0S9

or through your bookseller.

Catalogue No. FT4-155
ISBN 0-660-10127-0

Canada: \$5.00
Other countries: \$6.00

Price subject to change without notice.

THE TARIFF BOARD

CHAIRMAN

Pamela A. McDougall

FIRST VICE-CHAIRMAN

W. J. Landreth

SECOND VICE-CHAIRMAN

J. Lupien

MEMBERS

G. Deachman

A. C. Kilbank

K. C. Martin

J. Bertrand

DIRECTOR OF RESEARCH

W. L. Posthumus

PANEL FOR THIS INQUIRY

Pamela A. McDougall

W. J. Landreth

A. C. Kilbank

J. Bertrand

ECONOMISTS

G. H. Forrester

J. Claros

M. S. Islam

H. D. McCree

J. W. Millman

Ottawa

K1A 0G7

Explanation of Symbols Used

- Zero or none reported
 - .. Figures not available
 - X Figures confidential
-

TABLE OF CONTENTS

	<u>Page</u>
BACKGROUND	1
The Tariff Items	1
Tariff History	3
Main Issues	4
Scope of the Inquiry	5
 SUBMISSIONS TO THE BOARD	 8
 STATISTICAL ANALYSIS	 11
Imports Under Tariff Item 69605-1	11
Imports by Clause	13
Imports by End-User	13
Existing and Potential Beneficiaries	16
Imports Under Tariff Item 69610-1	17
Alternative Rates of Duty	17
 ECONOMIC IMPACT OF 69605-1	 20
Effect on Prices	20
Benefit to Institutions	20
Significance of the Benefits Provided	22
Effect on Canadian Manufacturing	23
Effect of FST Exemption	27
Benefit and Cost Relationships	28
Administrative Considerations	28
 CONCLUSIONS AND RECOMMENDATIONS	 30
General Conclusions	30
Implementation	32
Clauses 1, 12, 13 and 14	32
Clause 11	36
Clauses 2 to 10 Inclusive	37
Beneficiaries and End-Use	38
Tariff Item 69610-1	42
Regulations	42
Federal Sales Tax	43

TABLE OF CONTENTS (concl.)

	<u>Page</u>
IMPLICATIONS OF RECOMMENDATIONS	44
RECOMMENDATIONS	46
APPENDICES	
A. Letter of Reference	53
B. Notice of Inquiry	55
C. Notice of Public Hearing	59
D. Attendance at Hearing	61
BACKGROUND NO. 6	67
Section I Import Statistics and Estimates	69
Section II Organizations Benefitting Under Tariff Item 69605-1	83
Section III The Manufacture of Scientific and Professional Goods in Canada	97
Section IV Tariff Factors	111

BACKGROUND

The Minister of Finance, in his letter of June 16, 1977,⁽¹⁾ directed the Tariff Board to conduct an inquiry into the provisions of tariff items 69605-1 and 69610-1, which grant exemption from duties for a range of goods when for the use of certain societies or institutions involved in religious or educational activities, scientific research, health care, literary pursuits or the fine arts. The Board designated this inquiry Reference 155, entitled *Exemption from Duties for Certain Institutions and Goods*.

The Tariff Items

Tariff item 69605-1 is an "institutional" item, i.e., it allows a specific group of societies or institutions free entry for certain goods which would otherwise enter under various other tariff items, usually dutiable. The nomenclature of the item comprises a section enumerating the goods which are duty exempt and a section identifying eligible institutions by their functions and by specific enumeration. The section dealing with the goods is divided into fourteen clauses which have, for the purposes of this report, been numbered as follows:

- Clause 1 - *Scientific apparatus (and ancillary equipment thereto), utensils and instruments, including boxes containing them;*
- Clause 2 - *Glassware for laboratory or scientific uses;*
- Clause 3 - *Maps, charts, motion picture films, filmstrips, microfilms, slides and other photographic reproductions and pictorial illustrations;*
- Clause 4 - *Pamphlets and magazines;*
- Clause 5 - *Reproductions of works of art;*
- Clause 6 - *Sound recordings and video tape recordings;*
- Clause 7 - *Stencils and cards specially designed for the preparation of library index cards;*
- Clause 8 - *Models, static or moving;*

(1) See Appendix A.

Clause 9 - *Animals as research or experimental subjects;*

Clause 10- *Living plants, seeds, cuttings, buds, scions, tubers, bulbs and root stock;*

Clause 11- *Scientific preparations, including containers in which imported, for use directly in teaching, research or medical diagnosis;*

Clause 12- *Utensils, instruments and other apparatus not otherwise enumerated in this item, of a class or kind not made in Canada, for use directly in teaching or research;*

Clause 13- *Mechanical equipment not otherwise enumerated in this item, when of a class or kind not made in Canada;*

Clause 14- *Parts of all the foregoing.*

Qualifying beneficiaries are described first in terms of the functions or activities carried out by them, i.e.

all the foregoing when for the use of any society or institution incorporated or established solely for religious, educational, scientific or literary purposes, or for the encouragement of the fine arts (namely architecture, sculpture, painting, engraving and music).

Secondly, certain institutions are named specifically, i.e.

or for the use of any public hospital, public library, public museum, university, college, academy, school or seminary of learning.

The goods are:

not for sale or rental unless to those mentioned herein

and the item may be subject to:

such regulations as the Minister may prescribe.

Tariff item 69605-1 encompasses largely finished, fully assembled, manufactured goods, sub-assemblies of such goods and parts for repair or replacement. Tariff item 69610-1 provides free entry for *articles and materials for use exclusively in the manufacture of the goods enumerated in tariff item 69605-1*. Duty-free entry under 69610-1 benefits domestic manufacturers while exemption from duty under 69605-1 benefits end-users.

In addition to exemption from duty under the two tariff items at issue, qualifying beneficiaries also are entitled to exemption from Federal Sales Tax (FST) on the enumerated goods, under the provisions of Part VII of Schedule III of the *Excise Tax Act*. This FST exemption is provided not only with respect to imported goods but also for the same goods manufactured domestically, i.e. Canadian-produced goods, which, if they were imported, would be classified under these two items.

Tariff History

A tariff item somewhat similar to 69605-1 has been in existence for many years, dating back at least as far as 1847. The item has undergone numerous changes since that time. On the whole the direction of change, in addition to greater clarity and specificity, has been to expand both the commodity and institutional coverage of the item.⁽¹⁾

In the present context, one of the more significant changes on the commodity side was the introduction of the word *scientific* in 1906, modifying apparatus and instruments. The provision *not manufactured in the Dominion* was introduced in 1886, dropped in 1904, and partially reintroduced in 1929 to cover mechanical equipment *of a class or kind not made in Canada*. The end-use provision *for use directly in teaching or research* was first incorporated in 1972 when the new clause 12, other apparatus, utensils and instruments, was introduced. Qualifying institutions have usually been described on a general functional basis supplemented by a specific enumeration. However, from 1867 to 1904 the benefits were confined to specifically-named institutions only.

Tariff item 69610-1 was introduced in 1953. Prior to that time the articles and materials now entering under this item were dutiable elsewhere in the *Customs Tariff*, according to their own nature.

Tariff items 69605-1 and 69610-1 were previously considered by the Tariff Board along with a number of other tariff items in Reference 134, *Equipment for Hospitals and Other Institutions*.⁽²⁾ This study resulted in 1969 in the addition of motion picture films, filmstrips, microfilms, slides, pamphlets and magazines, reproductions of works of art, and sound recordings to the list of eligible goods. At the same time, for purposes

(1) A complete history of all the changes pertaining to these two tariff items can be found in Background No. 1, Exhibit 3.

(2) Report by the Tariff Board, *Equipment for Hospitals and Other Institutions*, Reference No. 134, Ottawa, Canada, 1968. The more pertinent excerpts from the report on Reference 134 are contained in Background No. 1, Exhibit 4.

of clarity, public libraries, public museums and universities were added to the list of specifically-named beneficiaries.

The interpretation of tariff item 69605-1 has also, on several occasions, been the subject of appeals to the Tariff Board. In appeals 480, 556, 719, 761, and 1233, the Board's decision turned on whether or not goods were *scientific apparatus or mechanical equipment of a class or kind not made in Canada*. In appeals 1164 and 1165 the Board held that certain pharmaceutical preparations used in medical treatment by public hospitals, being scientific in nature, manufactured and shipped under conditions of scientific control and administered in a scientific manner, were scientific preparations although they were not used or designed for use for strictly scientific (e.g. research) purposes. In appeal 1199, the Board held that a company-owned training facility, forming an integral part of the company, and primarily used to train its own employees, did not meet the definition of a society or institution incorporated or established *solely for... educational...purposes*.

Main Issues

The Board's initial analysis of the Minister's Letter of Reference and of the tariff items in question indicated a requirement to focus on the following issues:

- whether duty-free entry under tariff item 69605-1 should be confined to goods of a class or kind not made in Canada;
- whether there should be changes in the institutions entitled to duty-free entry and whether criteria could be established to identify these institutions more clearly;
- whether the existing end-use provisions in the tariff items should be expanded, changed or deleted;
- whether steps could be taken either through the wording of the tariff items or by other means to resolve the administrative problems of designation, definition and record keeping which the Minister of Finance had identified.

The Board also noted a number of related questions which could not be left out of account in reaching conclusions as to the appropriate recommendations. These were:

- whether the tariff item as currently worded was an appropriate instrument for the purpose apparently originally intended, i.e. the granting of relief from duties otherwise

imposed by the *Customs Tariff* as a means of aiding certain worthy purposes;

- whether the tariff item had become an anachronism for some or all of the beneficiaries in the changed circumstances of today, when public funding and transfer payments amongst different levels of government play a greatly increased role in the financing of hospitals, museums, universities and other such institutions;
- the costs to Canadian producers of these duty-free entry provisions and the real benefits to the intended beneficiaries;
- the nature of the financial impact, on both beneficiaries and Canadian manufacturers, of the exemption from sales tax granted in Part VII of Schedule III of the *Excise Tax Act* on goods enumerated in tariff items 69605-1 and 69610-1, whether imported or manufactured domestically.

Obviously, there are areas where the interests of the Canadian beneficiaries and of domestic manufacturers will be in conflict. An attempt was made to give due weight to the legitimate interests of both these groups in considering both the substantive and administrative changes required. To determine the impact of the tariff items on Canadian manufacturers, the Board sought to establish the importance of the institutional market relative to the domestic market as a whole, the size of the industry currently producing the relevant goods and the potential for this industry. It also looked at the likely impact on high technology production in Canada and the related question of industrial research and development.

The position of the beneficiaries was examined in terms of the importance of the benefits received under tariff item 69605-1 relative to total spending, the likelihood of alternative public assistance if free entry privileges were withdrawn and possible deterioration in the level of service provided by the institutions concerned. Their access to duty-free entry and to Federal Sales Tax exemption under other provisions of the *Customs Tariff* or *Excise Tax Act* was also taken into account.

The question of administrative improvement was examined not only from the point of view of the tariff wording --with consequent impact on the range of goods and the number of beneficiaries --but also from the point of view of existing administrative arrangements and those which might be required under a changed approach.

Scope of the Inquiry

The wide ranging nature of the goods and institutions affected by these tariff items prompted the Board to take special steps to identify

and contact the intended beneficiaries and to maximize the input of interested parties in its deliberations. Initially, a personal letter describing the main issues to be addressed at the inquiry was sent to some 65 organizations, governmental agencies, institutions and individuals likely to have an interest in the subject matter. Further indications of preliminary interest were solicited through an official Notice of Inquiry, gazetted on November 5, 1977.⁽¹⁾ Advertisements drawing attention to the inquiry were placed in newspapers across the country and reference to the inquiry subsequently appeared in some eighteen trade and association publications. The parties responding to these notices were provided with a series of background documents containing information and analyses designed to assist them in the preparation of either written or oral submissions to the Board. Public hearings were held in Ottawa for a period of three days starting April 17, 1978.⁽²⁾

The Board received sixty-one briefs and submissions, and thirty-one organizations and institutions were represented at the public hearings.⁽³⁾

During the course of this inquiry, the Board issued six background documents which should be read in conjunction with this report in order to have a complete overview of the study. The first three dealt with:

- Background No. 1: General Information - Letter of reference,
tariff history, preliminary import data.
October 1, 1977.
- Background No. 2: Administration by National Revenue of tariff
items 69605-1 and 69610-1.
January 16, 1978.
- Background No. 3: Analysis of cost/benefit flows under the
present application of tariff items 69605-1
and 69610-1.
February 1, 1978.

Submissions received by the Board were published in Background Nos. 4 and 5 and, in accordance with the Board's practice, were circulated to all interested parties who had themselves made submissions. Background No. 6 contains additional and updated statistical data and also further analyses of domestic manufacturing, the financial impact of duty exemption on beneficiaries and other tariff related factors. It is published with this report⁽⁴⁾ and completes the documentation of the research carried out

(1) Appendix B.

(2) See *Notice of Public Hearing*, Appendix C.

(3) Listed in Appendix D.

(4) See page 67. The other background documents are being tabled with this Report and are available from *The Secretary, Tariff Board, Ottawa*.

in connection with this inquiry. The import analysis and the study of the economic factors relating to 69605-1 in this report are derived from the more detailed studies in the above-mentioned background documents.

SUBMISSIONS TO THE BOARD

The numerous submissions made to the Board fell essentially into two groups: institutions favouring retention of tariff item 69605-1 and/or extension of its privileges, and Canadian manufacturers proposing its elimination.

The Association of Universities and Colleges in Canada (AUCC), in support of its recommendation that tariff item 69605-1 should remain unchanged, stated that the benefit obtained by its members is substantial, some \$20 million in 1976/77. It was contended that, in view of the current constraints on government spending, federal and provincial, it would be unrealistic to expect that this amount, if lost, would be recovered through a corresponding increase in direct grants.⁽¹⁾ This viewpoint received general support from other beneficiaries which are funded wholly or in part by direct public assistance. The AUCC stated, moreover, that there would be little or no room to absorb the lost benefits by greater efficiency and cost effectiveness. The result would be either a reduction in overall spending, especially in relation to their research activities, or an increase in tuition fees.

The Canadian School Trustees' Association, on behalf of elementary and secondary school boards, told the Board that the higher cost of the goods in question, should tariff item 69605-1 be eliminated, would inevitably result in higher municipal mill rates for education.⁽²⁾ Beneficiaries entirely dependent on private funds, such as the Seventh Day Adventist Churches of Canada, pointed out that in their case there would be no possibility of recourse to public funding. The loss of benefits under tariff item 69605-1 would lead to a reduction in the scope of their activities or the need for an increase in donations.⁽³⁾

The Canadian Manufacturers' Association (CMA), on behalf of Canadian manufacturers of laboratory equipment, glassware and chemical and pharmaceutical preparations, expressed the view that the tariff should be used as an instrument of industrial policy for the encouragement and expansion of manufacturing in Canada, and that the use of the customs tariff as a means of providing financial assistance to certain institutions is

(1) Transcript, Vol. 1, pp. 191-194.

(2) Transcript, Vol. 3, pp. 543, 544.

(3) Transcript, Vol. 3, pp. 550, 551.

obsolete and antiquated.⁽¹⁾ The CMA claimed that free entry for the goods in question under this item had adversely affected Canadian manufacturing. Evidence was submitted in support of its view that the Canadian professional and scientific equipment industry, relative to population, ranked in size far below comparable industries in the United States, Germany and Britain.⁽²⁾ While this, according to the CMA, reflected the much lower per capita spending on research and development in Canada, and hence the lower level of expenditures on scientific equipment, it was also due to the high degree of import penetration. Figures were cited to demonstrate that Canada, compared to other OECD countries, has the lowest average rate of duty for professional and scientific equipment and the highest proportion of such equipment entering duty-free, much of it under 69605-1.⁽³⁾

The CMA recommended that tariff item 69605-1 be eliminated. The Board was told that this could be expected to result in a substantial expansion of domestic sales by Canadian manufacturers and would subsequently, with this larger domestic base, lead to additional export sales as well. One producer, specializing in the production of certain chemicals, forecast an increase in his sales in the order of 75 per cent by the early 1980s.⁽⁴⁾ Overall the CMA anticipated that some \$25 million of imports might be replaced by domestically produced goods if this tariff item were eliminated. This would add, directly and indirectly, some 1,250 jobs, an important consideration, it was felt, in the light of the high degree of technology required and the increasing technological training of Canadian job seekers.⁽⁵⁾

A major contention of domestic manufacturers was that they face high and formidable tariff and non-tariff barriers in markets abroad while foreign manufacturers face practically no obstacles in entering the Canadian market. It was claimed that domestic producers, with a small domestic market, must overcome high tariffs and onerous administrative requirements to gain access to the much needed larger U.S. market. By contrast, United States manufacturers, already enjoying a large well protected home market, have the further advantage of duty-free entry into a major segment of the Canadian market. According to the CMA, it is no surprise that, in these circumstances, producers of the goods at issue tend to locate in the United States and that the Canadian industry is underdeveloped with its members frequently asking themselves why they should remain in Canada.

The Board was further told that, while institutions could also obtain the benefits of duty and sales tax exemption under tariff item

(1) Transcript, Vol. 2 p. 387.

(2) Transcript, Vol. 2 p. 370.

(3) Transcript, Vol. 2, pp. 377, 378.

(4) Transcript, Vol. 2, p. 251.

(5) Transcript, Vol. 1, p. 40.

69605-1 by purchasing competitively priced Canadian-made goods, they frequently ignored the domestic product and showed a preference for the foreign one. The CMA, supported by a number of individual Canadian manufacturers, related that some universities, with the use of "systems purchasing," undertook to obtain their total annual requirements of laboratory equipment, glassware and chemical preparations from a single foreign-owned supplier, and that they were unwilling to consider tenders from Canadian producers for comparable products.⁽¹⁾ It was also alleged that, because small domestic manufacturers were unable to afford permanent nation-wide distributor networks, they were disqualified from federal government procurement in certain regions.⁽²⁾

On the other hand, the AUCC contended that the present Canadian manufacturing base for the more important 69605-1 goods is so small that the overall growth in employment is unlikely to be anywhere nearly as large as the CMA suggested. The viewpoint was also expressed that the present size of the domestic industry producing the relevant goods could not be attributed solely to free entry under this tariff item. Negative factors such as the small overall Canadian research and development effort, the lack of a vigorous buy-Canadian approach in government procurement and the small domestic market would not be mitigated by elimination of this item.

The Board also received a number of proposals to extend the institutional scope of tariff item 69605-1. A submission from the Government of Ontario recommended that all institutions for the training of mentally retarded children, as defined by tariff item 69630-1, be included as beneficiaries. The Government of New Brunswick recommended that nursing homes, laboratories, shared-service corporations and health training programmes operated by the Department of Health, be added to the list of eligible institutions. Special schools for other handicapped persons, the blind, deaf and mute, and institutions serving such persons were also recommended for inclusion. It was suggested that the term "public museums" be clarified and expanded to include art galleries, exhibition centres, archives, historic houses and sites, zoos, planetaria, botanical gardens, aquaria and nature centres, and all incorporated non-profit organizations serving them. The United Way of Canada proposed that all registered charitable organizations be made eligible as well. The inclusion of pilot training schools was recommended by a number of Canadian airlines.

On the commodity side, several foreign producers of chemical and pharmaceutical preparations and of medical devices proposed that the end-use for scientific preparations be extended to include medical treatment

(1) Transcript, Vol. 1, pp. 56 and 87.

(2) Transcript, Vol. 1, pp. 87, 88.

in addition to medical diagnosis. Furthermore, it was suggested that the benefits of tariff item 69605-1, now available to public hospitals, should also be given to government and private hospitals, public and private laboratories, physicians and dentists. A number of submissions also recommended that the words "all goods" replace the present commodity listing.

A number of Canadian manufacturers, as well as the CMA, proposed the elimination of tariff item 69610-1 on the grounds that it undermined protection for the relevant articles and materials made in Canada. On the other hand, a manufacturer of equipment of a kind enumerated in 69605-1, and an importer of articles and materials for use in the manufacture of that equipment, sought retention of the item without any change. This position was supported by a number of associations representing institutional end-users. However, most organizations did not mention tariff item 69610-1 in either their oral or written submissions.

STATISTICAL ANALYSIS

Imports Under Tariff Item 69605-1

Imports entering in 1977 under 69605-1 totalled \$199.2 million. Although substantial, these imports were relatively small in comparison to total Canadian merchandise imports, less than 0.5 per cent in that year. It is noteworthy, in this context, that imports into the United States under generally equivalent tariff items amounted in the same year to only some \$68 million.

Over the past hundred years, the growth rate of the institutional imports covered by tariff item 69605-1 has greatly exceeded that of total imports.⁽¹⁾ Although this is in part attributable to the relative expansion of the role of such institutions in society, it also reflects the broadening, from time to time, of the scope of the item. However, although imports under tariff item 69605-1 have nearly trebled in value since 1966, when they amounted to \$69.1 million, the growth rate during the past decade has been less than that of total imports.

One of the main features of tariff item 69605-1 is that, unlike most items in the *Customs Tariff* which deal with a single product or a narrow group of products, it encompasses a very wide range of goods. An indication of the variety of commodities entering under 69605-1 is that this tariff item is relevant to 1,450 of the 14,000 commodity groups used by Statistics Canada for classifying imports at the most detailed 7-digit level.

(1) Background No. 6, Table 1B.

As illustrated in Table 1, the bulk of the goods imported under tariff item 69605-1 fall into four broad categories, namely: professional and scientific equipment; electrical and other machinery and equipment; chemical and pharmaceutical preparations; and photographic equipment, projection apparatus and film. In 1977 these categories accounted for more than 90 per cent of total 69605-1 imports, and professional and scientific equipment alone for over 55 per cent.

Table 1: Imports Under Tariff Item 69605-1, by Selected Commodity Groups, 1977

	<u>Imports</u> \$ million
Professional and Scientific Equipment	
Lab. instruments & apparatus (excl. measuring & optical)	55.7
Other measuring, testing & control equipment	24.0
Electrical properties measuring instruments	11.3
Medical & related instruments & equipment	7.3
Misc. measuring & measure-controlling instruments	5.2
Optical apparatus & instruments	4.5
Scales & balances	2.1
	<u>110.1</u>
Electrical and Other Machinery & Equipment	
Office machines & equipment	19.8
Commercial & industrial telecommunication equipment	9.9
Electronic & related equipment components	3.6
Air conditioning & refrigeration equipment	1.2
Other special industry machinery	0.7
	<u>35.1</u>
Chemical & Pharmaceutical Preparations, Surgical Supplies	
Surgical & medical supplies, veterinarian & hospital	13.3
Industrial chemical specialties	5.3
Biological & immunological products	3.0
Other inorganic chemicals	4.2
Other pharmaceutical products	0.8
	<u>26.7</u>
Projection Apparatus, Photographic Equipment & Exposed Film	
Exposed photographic film	6.6
Projection apparatus and accessories	1.3
Other photographic equipment & supplies	1.0
	<u>8.9</u>

Source: Derived from Statistics Canada data.

Imports by Clause

The breakdown of imports by clause was carried out only for 1976; Chart 1 illustrates this distribution. Clause 1, scientific apparatus, utensils and instruments, clearly stands out, comprising a quarter of the total. Further, it is estimated that of imports under clause 14, some \$15 million were of parts of clause 1 goods. Thus imports of scientific apparatus and parts amounted to about 30 per cent of the total. Imports under clauses 12, 13 and 14, of mechanical equipment and other apparatus, utensils and instruments, and parts, totalled some \$70 million; these goods, all of a class or kind not made in Canada, comprised 35 per cent of the total.

In all, the goods imported under the four clauses covering apparatus, instruments, utensils and equipment, and parts thereof, represented 75 per cent of total 69605-1 imports. Scientific preparations were an important 16 per cent, with maps, charts, films and glassware accounting for the bulk of the remainder. The combined imports under clauses 4 to 10 inclusive represented less than 2 per cent.

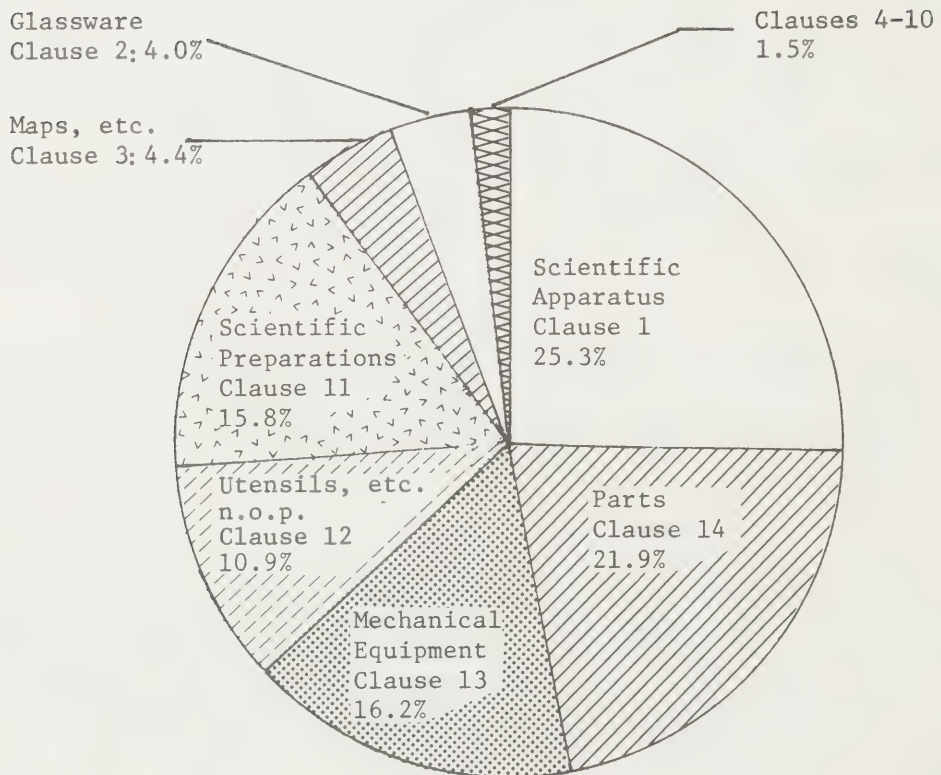
Imports by End-User

Information obtained by the Board from an analysis of imports and a survey of importer-distributors indicated that educational institutions, universities, colleges and schools, together, were the largest purchasers of goods imported under tariff item 69605-1 in 1977, followed by government agencies (Chart 2).

Universities constituted the most important single end-user category, as a result of their research activities as well as their educational and teaching functions. Colleges and elementary and secondary schools, although having together a much larger budget than all universities, were much smaller beneficiaries. Engaged more in teaching than in research, these institutions spend proportionately much less of their budget on the type of scientific equipment described under tariff item 69605-1 than do universities. Moreover, the Board gained the impression that, compared to universities, local school boards were not as aware of the benefits afforded under this tariff item. The above educational institutions accounted for nearly 40 per cent of total 69605-1 imports.

Among the governmental agencies, federal government departments, agencies and crown corporations were the more prominent end-users of these imported goods, although a substantial amount was acquired by provincial governments as well. The importance of governments as beneficiaries reflects primarily their scientific or research activity, a major area of endeavour benefitting under this item. Municipal governments, which do not have a significant research role, were negligible users of 69605-1

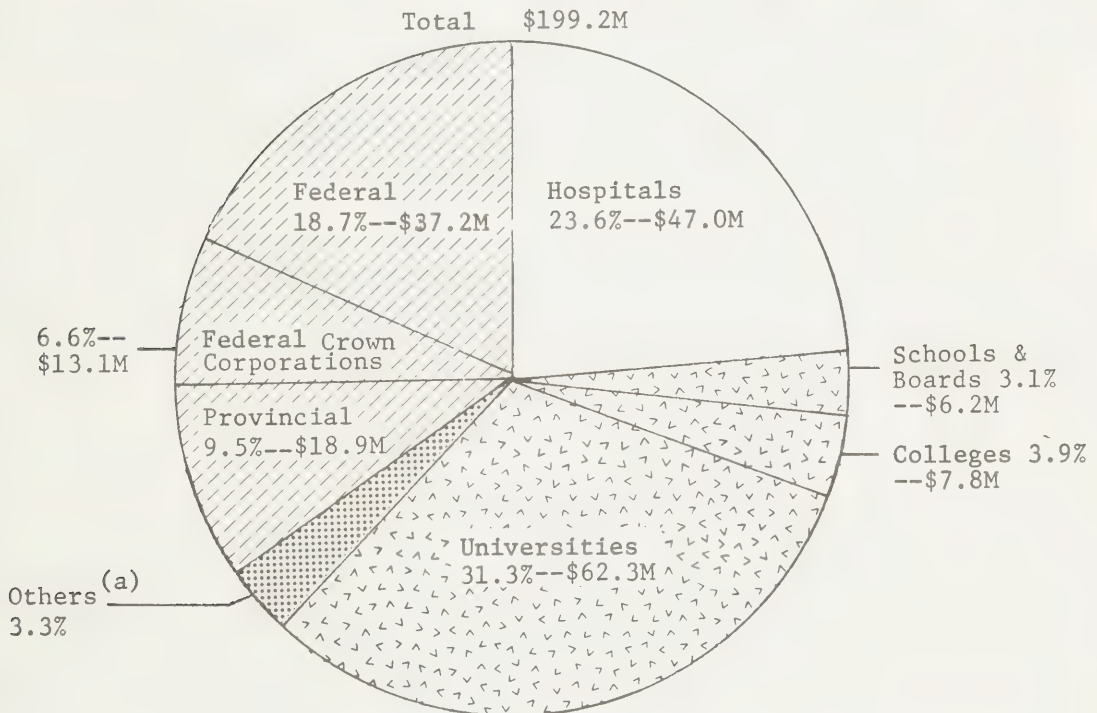
CHART 1

Estimated Imports by Clause, 1976


Source: Background No. 6, Table 1B.

CHART 2

Estimated Imports Under Tariff Item 69605-1 by End-User, 1977



(a) Includes Museums (\$0.8M), Libraries (\$0.4M), Religious Institutions (\$2.6M), Charitable and other organizations (\$2.8M)

 Education

 Government

Source: Tariff Board.

goods. Imports by these public bodies comprised about 35 per cent of total imports under 69605-1.

Public hospitals, also with a substantial scientific or research function in the diagnostic field, ranked third as end-users. Governments, educational institutions and hospitals together purchased in 1977 over 95 per cent of all the goods imported under the tariff item. Other eligible institutions, such as public libraries, public museums and the large number of religious organizations, are, by comparison, minor end-users. Their overall requirements for the kinds of goods enumerated in 69605-1 are relatively small and the level of domestic availability may tend to be somewhat higher, thus reducing the amounts imported by them. Moreover, many of these minor end-users probably are not familiar with the benefits available.

Public hospitals, primarily with respect to medical diagnosis, are estimated to account for about half the scientific preparations imported under clause 11. Most of the remaining hospital purchases comprise equipment and apparatus under clauses 1, 12 and 13 and laboratory glassware under clause 2. Governments and universities are important users of all categories of goods imported under this item but in particular of scientific and laboratory equipment. Other institutions, such as religious organizations and public libraries, tend more to purchase the audio-visual goods entering under clauses 3 and 6.

Existing and Potential Beneficiaries

No information is available as to the exact number of organizations or institutions currently benefitting from the duty free entry available under the two tariff items. The number varies from time to time, depending on the nature of the goods being purchased by potential beneficiaries. As indicated in Table 2, an estimate of some 40,000 organizations eligible to benefit can be derived from an analysis of the number of existing institutions named in tariff item 69605-1. While the largest single group is religious organizations (including all individual churches), it is likely that only a small percentage of this group actually benefits from either or both duty-free entry and FST exemption. Similarly, the very large number of elementary and secondary schools is not representative of the proportion of the total benefits under the tariff items which accrue to either individual schools or school systems as a whole.

Left out of account in Table 2 are some of the 300 governmental beneficiaries which have been identified. These governmental beneficiaries range from such large research organizations as the National Research Council to federal and provincial departmental laboratories and armed forces training schools. Together they account for 35 per cent of imports under tariff item 69605-1. Also not reflected in Table 2 is a residual category of about 500 current beneficiaries which included 142 social service agencies, 186 organizations conducting some activity in the educational field, 46

organizations engaged in research, 67 of a cultural nature and 41 whose aims are recreational. Some of the residual category and most, if not all, of the governmental beneficiaries are 'borderline' beneficiaries, i.e. there is some question as to whether they would qualify for benefits under a strict interpretation of the wording of existing tariff item 69605-1.

Table 2: Number of Potential Beneficiaries⁽¹⁾ Under
Tariff Item 69605-1, 1977

Religious Organizations	22,000
Elementary and Secondary Schools	14,459
Public Museums	1,500
Public Hospitals	1,041
Public Libraries	1,000
Community Colleges	187
Universities	69
Total	40,256

Source: Statistics Canada, National Revenue and others.

Imports Under Tariff Item 69610-1

Imports under 69610-1 of articles and materials used in the manufacture of the goods enumerated in 69605-1 amounted to \$7.7 million in 1977. The bulk of these goods came from the United States. Imports under the subsidiary item have increased at a much more rapid rate, from \$1.3 million in 1966, than those under the main item.

Most of the articles and materials appeared to be for the manufacture of professional and scientific equipment and for electrical and other machinery and equipment; smaller amounts were used in chemical and pharmaceutical preparations and for photographic equipment.⁽²⁾ These goods were imported by institutional end-users who are engaged in manufacturing, as well as by Canadian manufacturing firms.

Alternative Rates of Duty

When imported by other than qualifying institutions the goods enumerated in 69605-1 enter under appropriate items elsewhere in Schedule A

(1) Explanatory notes to this table can be found in Background No. 6, Table IIA.

(2) See Background No. 6, Table IF.

of the *Customs Tariff*. There are a large number of such alternative tariff items, many of them dutiable.⁽¹⁾ It is estimated that, of the \$175.6 million imported duty-free in 1976 by qualifying institutions under this item, \$131.4 million would have been dutiable if imported by others, at rates of duty ranging from 5 per cent to 27½ per cent M.F.N. (see Chart 3). The average M.F.N. rate of duty, or the average level of protection for manufacturers supplying the non-institutional market, would be 13.2 per cent.

This average rate needs to be adjusted, however, to take account of the fact that some goods entering under 69605-1 are also eligible for free entry elsewhere in Schedule A. On the basis of 1976 imports, it is estimated that some \$44.2 million worth of imports would fall into this category. For these goods elimination of tariff item 69605-1 would create no advantage for Canadian manufacturers, and conversely the existence of this item confers no benefit on eligible institutions. The average rate of duty, including both dutiable and non-dutiable goods, would be approximately 10 per cent M.F.N.

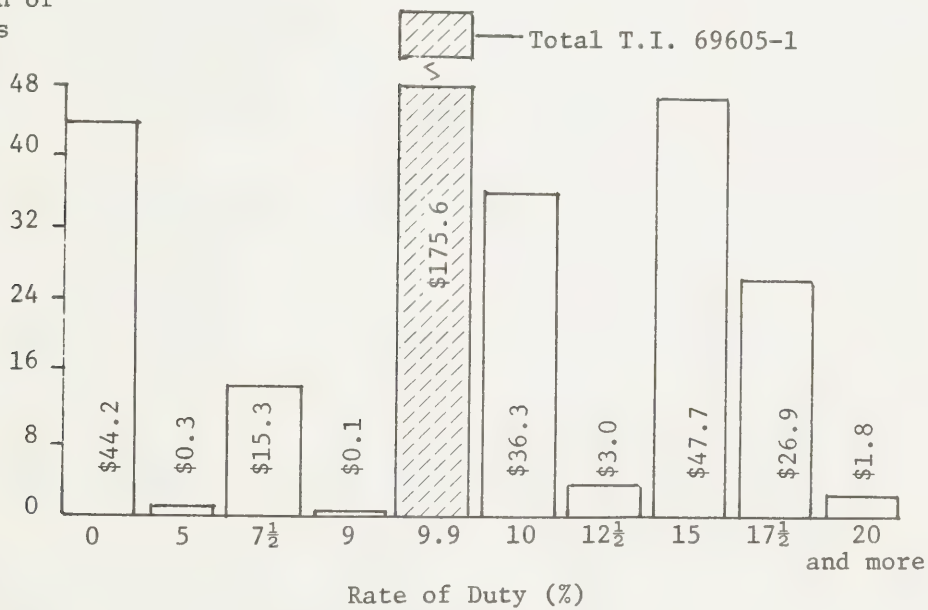
It was not possible to estimate the alternative rates of duty nor the average rate of duty for goods entering under tariff item 69610-1 because of the diversity of the materials and articles involved.

(1) The alternative tariff items, with their M.F.N. rates of duty, are listed in Background No. 6, Table IVA.

CHART 3

Distribution of Imports Under Tariff Item 69605-1 by Rate of Duty^(a), 1976

Value of
Imports in
Million of
Dollars



(a) Rate of duty if Tariff Item 69605-1 did not exist

Source: Tariff Board

ECONOMIC IMPACT OF 69605-1

Effect on Prices

As the result of duty and FST exemption, goods imported under tariff item 69605-1 are normally available to qualified institutions at lower prices than to other end-users. The same is true for similar domestically produced goods, on the assumption that Canadian manufacturers use the full level of protection available to them when selling to the non-institutional market. For both imported and domestically produced goods enumerated in 69605-1, the maximum price benefit realized is the sum of the duty and FST otherwise payable.

Benefit to Institutions

Assuming that the full effect of duty and FST exemption is passed on, the benefit⁽¹⁾ to institutions with respect to imports under 69605-1 is estimated at \$38.3 million in 1977. Exemption from duty is valued at \$19.7 million on the basis of an average rate of duty of 9.9 per cent on eligible imports of \$199 million in that year. The benefit from FST exemption is placed at \$18.6 million.⁽²⁾ The probable division of the total benefit among the various end-users is presented in the table below.

Table 3: Benefits from Imports under 69605-1 by
Types of Institutions, 1977

	(\$ million)
Universities	14.39
Federal Government	11.62
Public Hospitals	4.65
Provincial Governments	2.87
Community Colleges	1.80
Elem. and Sec. Schools	1.43
Religious Organizations	0.60
Public Museums	0.19
Public Libraries	0.09
Other	<u>0.65</u>
Total	38.30

(1) The rationale and methodology of the calculation of benefits and costs are provided in detail in Background No. 3, "Cost/Benefit Flows under the Present Application of Tariff Items 69605-1 and 69610-1."

(2) Figures presented here are the final version of the preliminary data contained in Background No. 3.

Federal government departments (including agencies and crown corporations), universities and public hospitals are the largest beneficiaries under this tariff item, together accounting for at least three-quarters of the total benefit. The amount for hospitals reflects average duty benefits only, because they enjoy blanket FST exemption on all their commodity purchases.⁽¹⁾ Moreover, it is likely that the average rate of duty benefit imputed to hospitals is excessive, because these institutions have duty-free status under a number of other tariff items for some of the goods enumerated in 69605-1.

It appears that the loss to hospitals from elimination of this item would be small.

Certain clauses in the item are much more important than others because they confer duty-free and FST exempt status on goods of major importance in budgetary expenditures, e.g. Clauses 1, 12 and 13. Others, such as the provisions for research animals and living plants, etc., confer little or no benefit because these goods have duty- and FST-free status under other provisions of the tariff and the *Excise Tax Act*. This is also true for most of the goods enumerated under clause 3 (maps, charts, films), clause 6 (sound and video tapes) and clause 8 (models); these goods also enter duty and FST exempt under tariff item 69615-1 although with greater administrative difficulty for the beneficiaries.

A substantial portion of the mechanical equipment entering under clause 13 of 69605-1 benefits from FST exemption only, inasmuch as such goods, not available from Canadian production, would be eligible for remission of duties under 42700-1, "machinery n.o.p.". It is also clear that more than half of the scientific preparations imported under clause 11 benefit only from duty exemption because they are purchased by hospitals or because they comprise medical and pharmaceutical preparations otherwise FST exempt.⁽²⁾

The opportunity exists for considerable rationalization of tariff item 69605-1 with little net loss to beneficiaries.

The Board was unable to obtain satisfactory statistics on the volume of institutional purchases from Canadian manufacturers of goods enumerated in 69605-1 and thus could not calculate the price effects (and hence the benefits) of duty and FST exemption in regard to domestically-produced goods. By definition, such purchases would be virtually non-existent for mechanical equipment, n.o.p., and utensils, instruments and apparatus, n.o.p.,

(1) *Excise Tax Act*, Schedule III, Part VIII, Section 2.

(2) *Excise Tax Act*, Schedule III, Part VIII, Section 1.

of a class or kind not made in Canada. Information obtained by the Board suggests that domestic producers supply only about 15 per cent of the institutional market for scientific apparatus, glassware and scientific preparations, or about \$35 - 40 million annually. It is likely that, for competitive reasons, these goods sell at lower prices than in the non-institutional market and therefore qualifying institutions benefit from lower prices to the same extent as on imported goods.

For the remaining enumerated goods, such as pamphlets, magazines, maps, charts, films, microfilms and tape recordings, the domestically-produced proportion is believed to be much higher, and may exceed 50 per cent. The benefit for qualifying institutions from coverage under 69605-1 on these purchases would appear to be derived mainly from FST exemption.

Significance of the Benefits Provided

It is evident from data examined by the Board⁽¹⁾ that relative to total spending of most beneficiaries the benefit received under 69605-1 is well below 1 per cent. For example, the total operating costs for public hospitals in Canada were reported at \$5.5 billion for the fiscal year 1976. With respect to imports under the item, benefits are calculated at \$4.65 million. Such benefits represent less than 1/10 of 1 per cent of total funds required for hospital operations. The corresponding figure for universities is placed at some $\frac{1}{2}$ of 1 per cent. The budget for elementary and secondary schools in Canada totalled \$9.7 billion in 1976/77. In this context the duty and FST benefits accorded to schools by item 69605-1, derived at \$1.43 million, are entirely inconsequential. Allowance for the fact that these estimated benefits exclude those on purchases of domestically-made goods would not raise these percentages appreciably.

The significance of the benefit is somewhat greater when compared to institutional expenditures on goods, materials and equipment only. Even on this basis, however, the assistance provided under this item is 1 per cent or less for most beneficiaries. In the case of universities, which have a large research budget and spend a significant proportion of it on 69605-1 type goods, the importance of these benefits is substantially greater, almost 4 per cent. With respect to the NRC these benefits account for some 20 to 25 per cent of the organization's total expenditures on goods and materials, and between 4 and 5 per cent of its total operating budget (excluding its funding programs). For the NRC, and to a lesser extent the

(1) See Background No. 6, Table IIB.

universities, government funding can be used to compensate for loss of benefits under 69605-1, either by direct budgetary transfers from Customs Revenue to NRC financing or by increases in direct government research grants to universities.

With respect to other departments and agencies of the federal government the benefit derived from 69605-1 appears to be, as in the case of public hospitals and universities, minor when set against total departmental operating budgets. As noted later, most of the benefits obtained are, however, paid for by the federal treasury so that there is no net gain for the federal government as a whole.

In general, the Board found that, although the amounts involved are substantial, the benefits obtained under 69605-1 by qualifying institutions are small relative to their overall level of spending.

Effect on Canadian Manufacturing

For otherwise dutiable goods, tariff item 69605-1, in effect, splits the Canadian market into an unprotected institutional segment and a protected non-institutional one. Essentially, it reduced the size of the market in which domestic manufacturers have full protection and diminishes the average level of protection for the domestic market as a whole.

The extent of the impact depends on the relative size or importance of the institutional market. For most of the wide range of goods imported under 69605-1 the institutional market is very small relative to the total domestic market, and therefore Canadian producers of these goods are generally very little affected by the free-entry window provided by the tariff item. Domestic manufacturers of such products as industrial chemicals, medicines and pharmaceutical preparations, photographic equipment and supplies, commercial and industrial telecommunications equipment, etc., sell only a small proportion of their output to the 69605-1 institutional market.

On the other hand, for a relatively small number of goods, but comprising some \$80 million or 45 per cent of total 69605-1 imports, the duty-free institutional market appears to be a substantial proportion of the overall domestic market. In the case of some 100 of the relevant 1,450 commodity groups, at least 25 per cent of total Canadian imports were entered under this item. Table 4 lists those commodity classes for which institutional imports account for more than 50 per cent of the total.

Table 4: Impact of Tariff Item 69605-1 on Selected Commodities, 1976^(a)

<u>Commodity Description</u>	Total Imports Under all Tariff Items	69605-1 Imports as % of Total Imports
	\$'000	%
705-90-29: Heating mantles, laboratory	58	99.4
709-97-51: Flight simulator	838	95.7
709-99-38: Oceanography equipment parts	605	94.8
708-90-11: Balances, precision	2,234	89.6
429-99-70: Laboratory reagents	5,831	83.8
705-08-31: Microscope slides, unused	894	83.5
705-90-71: Spectrometers, mass	589	81.3
705-31-88: Gas chromatography equipment parts	258	74.4
705-08-11: Glassware laboratory n.e.s. exc. slides	9,324	73.8
705-08-21: Porcelain laboratory equipment	137	70.8
881-71-10: Laboratory reagents, prepackaged, medical	16,065	70.2
705-90-89: Laboratory instruments/apparatus n.e.s.	30,931	69.0
871-99-70: Reagents, diagnostic, biologic origin	949	67.7
705-90-88: Lab. instr./apparatus parts n.e.s.	10,874	67.3
705-04-10: Plastic laboratory equipment	3,134	67.0
705-90-79: Spectrometers, n.e.s.	194	66.3
918-13-21: Film, motion picture educational	6,148	66.2
705-90-21: Constant temperature apparatus, lab.	2,343	66.1
703-25-21: Thermometers, laboratory	520	64.9
709-99-89: Scientific instruments n.e.s.	3,113	64.3
705-90-72: Spectrometers, nmr	1,267	63.2
708-90-17: Weight sets, laboratory balance	59	62.2
705-90-11: Centrifuges, laboratory	2,834	62.1
705-90-31: Animal behavioural equipment	555	61.6
709-97-61: Microscope slides, prepared	661	58.8
709-97-11: Teaching kits, electronic	1,462	57.9
918-39-21: Bibliofilms, processed	1,852	57.7
709-97-88: Demonstration equipment parts	2,670	57.4
918-39-41: Microfilm, exposed	1,626	57.4
707-15-10: Colourimeters, electronic	3,417	55.6
705-31-87: Gas chromatography equip. accessories	949	55.3
709-99-81: Lasers, n.e.s.	1,281	55.1
703-77-11: Electrolytic conductivity meas. equip.	1,318	54.8
634-39-60: Radar equip., land, fixed, exc. airport	9	53.2
709-99-21: Atmospheric research equipment	221	52.6
703-62-89: Meteorological instr./apparatus n.e.s.	919	52.4

Table 4: (concl.)

<u>Commodity Description</u>	Total Imports Under all Tariff Items	69605-1 Imports as % of Total Imports
	\$'000	%
634-99-60: Satellites, communication	243	X
405-32-29: Isotopes, stable & their compounds	791	X
871-99-33: Insulins	46	X
634-39-30: Navigational aids, radar	522	X
879-99-88: Distilled water, in vials	226	X
879-99-50: Anti-infective agents n.e.s.	442	X

(a) Indicates duty-free imports under 69605-1 as a per cent of total imports for all seven digit commodity descriptions where 69605-1 accounts for 50 per cent or more of total imports.

Source: Derived from Statistics Canada data.

Many of the different kinds of equipment referred to in Table 4 are not produced in Canada. This is the case for all products entering under clauses 12 and 13, since they are by definition of a class or kind not made in Canada. Various kinds of scientific equipment, laboratory glassware and scientific preparations enumerated in clauses 1, 2 and 11 are also not made in Canada. Manufacturing in Canada of these goods is, in many instances, not viable for various reasons, e.g. economies of scale, access to technology, size of domestic market.

It has been noted, however, that a substantial volume of scientific equipment and of laboratory glassware and reagents is currently produced domestically. It is estimated that production of these goods totalled approximately \$60 million in 1977, with domestic sales accounting for \$30 million, about equally split between the institutional and non-institutional market, and the remainder being exported. Foreign suppliers are, however, the dominant factor in the domestic market. Total imports into Canada of these goods are estimated at some \$175 million, with nearly half entering under 69605-1. Thus, of the total domestic institutional and non-institutional market of some \$200 million, Canadian manufacturers supplied only about 15 per cent.

The Board identified 77 manufacturers producing 69605-1 goods in Canada in 1977.⁽¹⁾ Not all of these manufacturers are affected adversely by tariff item 69605-1. One firm rationalized its Canadian production with that of its parent company in the United States. It exports the bulk of its output and imports most of its requirements for the Canadian market. Other manufacturers are making high-technology specialized equipment and apparatus for the world market. They usually export more than they sell on the domestic market and although tariff item 69605-1 lowers their returns from sales to qualified domestic end-users, the impact of the item on their operations is small.

For many domestic manufacturers of scientific equipment, laboratory glassware and reagents, free entry under 69605-1 has however resulted in lower production, sales and employment. These producers make goods requiring rather standard technology, and for them length of production run and volume of total output are especially important cost considerations. In view of the small Canadian market, and thus in the absence of comparable economies of scale, their cost structure is generally out of line with that of foreign manufacturers. Therefore they find it extremely difficult to compete in the duty-free 69605-1 institutional market and are confined to the protected non-institutional market.

These domestic manufacturers often lack nationwide marketing and distribution facilities. Moreover, because they cannot economically produce the low volume items they are unable to offer their customers a full product line. Consequently, they find themselves at a disadvantage against foreign producers when it comes to marketing, after-sales service, dealing with customers with special needs or supplying customers who prefer to purchase all their requirements from a single supplier. The latter is the case with respect to universities using "systems purchasing." They often contract with a single supplier for their entire annual purchases of laboratory utensils, glassware and reagents. Canadian producers cannot compete on this basis, and successful tenders are more likely to come from foreign-owned distributors of predominantly foreign-produced goods. The Board's investigation has revealed that universities, as well as their main suppliers, do purchase a portion of their requirements from domestic manufacturers. Increasing reliance on this type of contract has however had an adverse affect on Canadian manufacturers.

The Board recognizes that duty exemption under 69605-1 is not the sole explanation for the current competitive position of domestic manufacturers of scientific equipment and laboratory supplies. The deficiencies pointed out above would persist to a substantial degree even if the tariff item were eliminated. However, it is clear that, where institutions comprise some 50 per cent of the domestic market, this tariff item considerably aggravates the situation for Canadian producers. Furthermore, it is

(1) See Background No. 6, Table IIIB.

certain that duty-free access to the institutional market has caused domestic production of some products to be discontinued and will prevent future production of others. With free access to such a large portion of the Canadian market there is little incentive for foreign producers to undertake production in Canada, and there is sound rationale for present domestic manufacturers, Canadian as well as foreign owned, to relocate in the much larger U.S. market. Despite these difficulties, a Canadian presence in these areas of manufacture does exist and under favourable conditions has shown itself able to expand production and sales significantly.

In summary, the Board finds little or no effect on Canadian manufacturing from duty-free entry under 69605-1 for a wide range of products which either are unlikely to be produced in Canada or for which the institutional market is insignificant.

The Board is of the opinion however that duty exemption has been harmful to the growth and development in Canada of manufacturing of scientific equipment, including glassware, and certain chemical preparations for laboratory use.

Effect of FST Exemption

The competitive position of Canadian manufacturers of the relevant goods is not directly affected in any significant manner by the FST exemption accorded by 69605-1. This privilege is extended to both domestically-made and imported goods and is, therefore, neutral in its effect. The Board agrees however with the viewpoint expressed at the public hearing that there is an anomaly in granting FST exemption to goods of a class or kind not made in Canada under clauses 12 and 13, and then withdrawing this exemption once the goods in question are declared of a class or kind made in Canada. This only adds to the already formidable difficulties of producing new products in Canada by forcing the qualified beneficiary to pay not only the protective duty but also the FST once a Canadian manufacturer has achieved the required 10 per cent of production.⁽¹⁾ This has the effect of discouraging beneficiaries from seeking Canadian sources of supply as well as inhibiting Canadian producers.

The Board considers that FST exemption should not be associated with tariff items containing a class or kind not made in Canada provision.

(1) See Background No. 6, page 115.

Benefit and Cost Relationships

The benefits from duty exemption extended under tariff items 69605-1 and 69610-1 are in part paid for by the Federal Government and in part by domestic manufacturers.⁽¹⁾ The costs of FST exemptions are carried entirely by the federal government.

For tariff item 69605-1, the cost to the federal government of duty exemption is with respect to imports under this item and takes the form of lower customs revenues for the federal treasury. The federal treasury bears the bulk of the duty related costs because institutions purchase mostly imported goods, as opposed to domestically-made goods.

The cost to domestic manufacturers relates to goods of their own manufacture enumerated under 69605-1 sold by them to eligible institutions. This cost is in the form of lower prices, revenues and profits on such sales, because this tariff item denies them the protection for these goods in the institutional market that they enjoy elsewhere. Inasmuch as only a small portion of all purchases related to this tariff item comprise domestically-made goods, the manufacturers bear a correspondingly small share of the total duty costs. Taking into account FST exemption as well, nearly all of the costs under 69605-1 are borne by the federal treasury.

It should be noted that, in addition to the cost to manufacturers of the price effect of duty-free entry under 69605-1, there is also the item's impact on the level of production and employment. This economic cost, which is most difficult to evaluate, is undoubtedly much greater than the cost arising from lower prices.

It is clear, in this context, that benefits obtained by departments, corporations and agencies of the federal government under 69605-1 are almost entirely paid for by the federal treasury. As a result, the overall fiscal impact in this respect is neutral. The benefits under this item to provincial government departments, agencies and corporations constitute implicitly an intergovernmental transfer of funds from the federal treasury. A similar transfer may be involved with respect to the benefits received under 69605-1 by hospitals, universities, colleges, and secondary and elementary schools. These institutions are, in large part, funded by provincial treasuries.

Administrative Considerations

The tariff treatment of the goods enumerated in tariff items 69605-1 and 69610-1 is accorded only for specific end-users and sometimes

(1) See also Background No. 3, "Cost Benefit Flows under the present application of tariff items 69605-1 and 69610-1."

only for a particular purpose. These qualifying factors produce complications in the administration of these items which are not present for most other tariff items in Schedule A.

Most of the additional workload derives from the fact that at the time of importation, the Customs Officer may not know the final use and/or user of the goods in question, and hence whether they qualify for duty- and FST-free entry. This is not a problem when end-users import directly, 30 p.c. of imports, or when goods are imported with an end use certificate or purchase order, 5 p.c. However, the 65 per cent imported by importer-distributors involve onerous and costly procedures for both the private and public sector for determining the final duty and FST status of the goods in question, and for making payment or obtaining remission.⁽¹⁾ Administration of FST exemption for domestically-produced 69605-1 type goods is equally burdensome.

The Board's investigation has confirmed interpretative difficulties concerning end-use with respect to the term "scientific" as it relates to apparatus, instruments, and utensils in clause 1, and to preparations in clause 11. A number of appeals to the Board have turned on the point of whether "scientific" means goods made scientifically or goods used for scientific purposes, or both. The end-use directive "for use directly in teaching or research" is also open to abuse if the qualified institutions do not conscientiously differentiate amongst their various activities.

The administration of tariff item 69605-1 has probably been complicated most by the broadness of the words describing eligible institutions. Moreover that description provides no interpretative guidelines or criteria, none are contained in the *Customs Act* or the *Customs Tariff* and none have been issued by the Minister. One of the main difficulties stems from the generality or lack of specificity of the words "any society or institution incorporated or established solely for religious, scientific or literary purposes...etc." There is first the question whether the organization being considered for qualification was established "solely" for a particular purpose. For example, is a laboratory in a government department, engaged in a variety of scientific activities, a qualified institution in the sense of 69605-1? The same question arises with respect to the training division of a commercial organization; the Board in this case has ruled that such in-house training establishments do not qualify.⁽²⁾ The term "scientific" causes problems in this context as well, in that there can be laboratories

(1) See Background No. 2, "Administration of Tariff Items 69605-1 and 69612-1."

(2) Tariff Board Declaration -- Appeal No. 1199, Air Canada and the Deputy Minister of National Revenue for Customs and Excise.

using scientific equipment, for example, for testing or analytical purposes but which perform no research functions whatsoever.

Organizations established solely for literary purposes are apparently few and far between. If music is named as one of the fine arts, there is also reason to ask why the other performing arts are omitted. In any event, many of the enumerated goods in 69605-1 would appear to be of no particular relevance to the pursuit of the main objectives of these culture-oriented organizations.

Furthermore, though the named beneficiaries, such as public hospitals, are more specific and more readily identifiable, "college," "school" and "academy" have apparently been open to ambiguous and wide-ranging interpretation as well. There is doubt, for example, as to whether profit-oriented institutions should be included. The term public museum can be either broad or restrictive, depending on the approach of the moment.

Examination of a representative list of current beneficiaries under 69605-1 suggests a substantial number whose inclusion is at least questionable. Disputes as to qualification and the proliferation of beneficiaries can both be reduced by greater specificity and by explicit regulation.

CONCLUSIONS AND RECOMMENDATIONS

General Conclusions

The scope of tariff item 69605-1 should be restricted in those areas where opportunities exist for the encouragement of Canadian production, i.e. for scientific apparatus and for certain laboratory glassware and reagents.

The Board recognizes that existing barriers to foreign markets are a much more serious obstacle for Canadian manufacturers than free entry under 69605-1, and that two-way free trade would be preferable to the above approach. At present, however, Canada has the lowest average rate of duty for scientific equipment and supplies among OECD countries, and the highest proportion of non-dutiable imports. As long as Canadian manufacturers do not have free access to export markets, there are strong arguments for reducing the constraint upon domestic production which results from the free access to the Canadian institutional market currently available to foreign producers.

This direction should provide the scientific and professional equipment industry in Canada with a much needed stimulus. Domestic production and employment in this area can be expected to expand substantially as a result of increased sales to the institutional market. Greater scale and enhanced viability will encourage the development of new products, in

turn leading to further sales in both domestic and export markets. It is estimated that the short term incremental output resulting from a limitation on the free entry of certain goods under 69605-1 could amount to \$20 - \$30 million involving possibly 1,000 to 1,250 direct and indirect jobs. The Board considers that a potential increase in output and employment of this order justifies a shift in the traditional approach of duty-free entry for qualified institutions so that some better balance of the interests of two important groups in Canadian society may be achieved.

Duty-free benefits should be maintained to the extent possible for goods not obtainable in Canada or where the impact on Canadian manufacturers is minimal.

The recommended move to a restriction on the goods eligible for duty exemption will be at some cost to the institutions concerned. The Board cannot accept the recommendation of the CMA to go further and propose the entire elimination of tariff item 69605-1. Such a change would remove a financial benefit with respect to almost half of total 69605-1 imports without any likelihood of significant additional production and employment in Canada. The benefits received by institutions under this tariff item are admittedly small relative to their total financial requirements and their elimination would, in the long run and on the average, have only a minor impact on cost and level of service that the institutions provide. But the Board is conscious of the fact that overall figures and averages do not adequately highlight the budgetary problems which can be created in particular situations by the loss of both duty and FST exemption. Nor does it seem appropriate to suggest any drastic interference in a long standing and obviously widely supported government policy to give tax relief to an identifiable group of service oriented organizations operating in the public interest.

Specific steps need to be taken in regard to the wording of the tariff item to simplify the enumeration of eligible goods, to reduce the number of and identify more specifically the potential beneficiaries, and to eliminate overlap with other tax and tariff provisions.

The Board concluded that the word "scientific" should if possible, be eliminated from tariff item 69605-1 both in relation to the description of goods and to the identification of qualified beneficiaries. The tariff history indicates that the word has traditionally been research oriented and this interpretation is supported by the comparatively recent addition of the concept "for use directly in teaching or research." It seems consistent with the thrust of government policy in recent years to assume that the "scientific purposes" for which qualified institutions are established are also research oriented and that this research need not be confined to the natural sciences.

The Board believes that government bodies should not as a general rule qualify as beneficiaries. It doubts that this was ever the intent of

the legislator. The only valid exception involves those governmental institutions which are indeed established solely for research purposes, for example, the National Research Council or those which appear in the named categories, e.g. many public museums. Neither should the tariff item serve as a source of tax relief for profit-making organizations. Efforts should be made to ensure that properly qualified beneficiaries use the duty-exempt goods for the purposes implicit in the tariff item and not for peripheral or supportive activity. Where potential beneficiaries such as hospitals have access to other important duty-free items, it would aid administration if their particular interests could be met through those tariff items rather than 69605-1.

Implementation

In order to incorporate these general conclusions into the specific recommendations for new and revised tariff items which appear in their entirety at page 46 of this report, the Board made a clause by clause study of the goods listed in tariff item 69605-1 and of the provisions pertaining to end-uses and qualifying institutions. During the course of this study, the decision was taken to recommend a division of the tariff item in order to separate certain goods which would continue to be accorded unrestricted free entry from those for which free entry was to continue only on a restricted basis. The following notes indicate the rationale which led the Board to its final proposals on appropriate tariff wording, on the need for ministerial regulations, and on amendments to Schedule III of the *Excise Tax Act*.

Clauses 1, 12, 13 and 14

Proposal- *Apparatus, utensils and instruments, and parts thereof,*
When for use ...by:
 ...;

*Dutiable at the rates set out opposite the
 appropriate enumeration of goods elsewhere
 in Schedule "A".*

*Except that in the case of the importation into
 Canada of any goods enumerated in this item,
 the Governor in Council on the recommendation
 of the Minister of Industry, Trade and Commerce
 may, whenever he considers that it is in the
 public interest and that the goods are not
 available from production in Canada, remit the
 duty specified in this item applicable to the
 goods, and subsections 17(2), (3), (4), (5) and
 (8) of the Financial Administration Act apply in
 the case of a remission granted under this
 provision.*

Scientific apparatus, utensils and instruments in clause 1, are the only items of equipment covered by 69605-1 to which beneficiaries have unrestricted free access, that is for which there are no end-use provisions and no exclusion of goods of a class or kind made in Canada. Since scientific equipment manufacture has been identified as an area where Canadian manufacturers have been particularly affected by duty exemption and where domestic production could be expected to expand if duty free access to the institutional market were limited, the Board concluded that a restriction related to availability from production in Canada should be introduced for clause 1 goods as well.

In the light of that decision, it becomes possible to combine the "scientific" apparatus, instruments and utensils, not produced in Canada, of clause 1, with the "other" apparatus, utensils and instruments of clause 12. This eliminates the need for the qualifying word "scientific." The provision for "ancillary equipment thereto" which appears in clause 1 becomes redundant because such equipment, even if not in itself scientific, would qualify under the broader phraseology "apparatus, instruments or utensils." The Board determined also that the phrase "boxes containing them" is no longer necessary since fitted containers are now generally considered to be an integral part of the contained product when imported in conjunction with the goods at issue.

It was also clear that most if not all of the mechanical equipment entering now under clause 13 would qualify as "apparatus" in the new equipment item, subject to the same type of availability restriction. Mechanical equipment not qualifying under this description would probably enter under the machinery n.o.p. item, 42700-1, and thus would be duty-free if not available from Canadian production. Clause 13 can therefore be dropped.

Parts of the relevant apparatus, instruments and utensils should receive the same tariff treatment as the goods themselves and should therefore be named specifically as they are in existing 69605-1.

The Board's most difficult decision had to do with the nature of the restriction it might propose to ensure protection for goods available from production in Canada. The first possibility involved a simple continuation of the provision "when of a class or kind not made in Canada" as it now appears in tariff item 69605-1. This NMIC provision, long in use in the Canadian tariff, benefits in its administration from Revenue Canada's considerable knowledge and experience. Decisions taken as to whether goods are or are not "made" are subject to appeal by interested parties. Furthermore, the breadth of coverage generally associated with the concept of "class or kind" appears to meet certain concerns of the Canadian manufacturer insofar as it provides protection for the particular kind of product he makes, as well as for an entire class of similar products.

The Board was conscious, however, of certain difficulties associated with the NMIC concept. Sometimes goods fail to be declared of a class

or kind made in Canada because, even though a substitutable product is available from a domestic manufacturer, the goods at issue are not considered to be of the same class as that product. Furthermore, Canadian production must be equal to at least 10 per cent of the domestic market in order for the product in question to be declared "made."⁽¹⁾ Consequently, manufacturers are without protection at least until that point is reached and certainly during the development stage of a new product. At the same time, the NMIC provision has shortcomings from the point of view of the Canadian end-user or importer. Products of a particular type and with very precise specifications are frequently dutiable even when not available from domestic production because they are found to be in the same broad class as other goods produced domestically. This type of situation can be particularly troublesome to end-users of specialized research equipment, a major segment of the goods at issue in this inquiry. The Board concluded that the NMIC provisions currently in force in 69605-1 do not always work satisfactorily in meeting the legitimate interests of either users or manufacturers.

An alternative would be the insertion of the phrase "not available from production in Canada" in the tariff item in place of the NMIC provision. Availability would be determined by whether a manufacturer had the capability to produce rather than by whether he was producing at least 10 per cent of the domestic demand; thus, the Canadian manufacturer would receive protection from the start-up point.

The Board rejected this approach principally for administrative reasons. Since this type of wording is not found within any item in the tariff schedule, Revenue Canada has had no formal experience in administering an availability concept. To establish the necessary industrial and commodity expertise would take time and would tend to duplicate other government resources. It would be difficult, moreover, to attune the normal appeal processes under the *Customs Act* to decisions involving judgement as to availability from Canadian producers. To be consistent with the existing NMIC provisions in the *Customs Tariff*, it would probably also be necessary to amend existing legislation to provide a basis for regulations defining availability.

In view of the importance of basing availability decisions on a solid framework of knowledge regarding Canadian manufacturing abilities and potential, the Board decided to recommend a remission of duty programme similar to that in place with respect to tariff item 42700-1, "Machinery n.o.p."⁽²⁾ Under such a scheme, apparatus, utensils and instruments would initially be dutiable at the existing rates for those goods elsewhere in the tariff schedule but the duties paid would be remitted if the goods were deemed to be not available from domestic production. Availability would be

(1) See Background No. 6, page 115, for a more detailed discussion of the NMIC provision.

(2) See Background No. 6, Section IV, page 116.

determined by the Department of Industry, Trade and Commerce using the expertise and experience acquired in the administration of the Machinery Programme. Determining availability in such a manner would tend to shift some of the burden of proof to the end-user in that he or the importer-distributor would have to establish that the product could not be obtained in Canada. While this in itself would be a drawback, the Board sees distinct advantages in the introduction of a system which would encourage increased contact between Canadian producers of scientific equipment and the institutional end-users. This contact would highlight the needs, capabilities and opportunities for industrial development and job creation, as well as the particular requirements of the qualified institutions.

The Board is aware that the introduction of a remission system will at least in the initial stages disrupt the stocking authority arrangements now in effect. These arrangements allow importers-distributors to hold stocks of imported goods on which duty and federal sales tax have not been paid subject to adjustment when the goods are sold to other than qualified users. As discussed in greater detail below, FST exemption would not be affected by the determination of availability and hence present procedures with respect to FST might be maintained. Duty, however, would be payable at the time of importation unless the lack of availability of the goods at issue had already been established as the result of a previous sale to a qualified institution. This would impose an additional financial and administrative burden on importers whose money would be tied up pending remission of duty and who would be required to file the appropriate refund claims each time sales were made to qualified users.

It is the view of the Board, however, that the advantages of an improved environment for industrial development and the greater flexibility for end-users attaching to remission of duties based on availability outweigh the disadvantages described above.

In considering the advisability of including end-use provisions in the new equipment item, the Board looked at the intent of the existing tariff item. Clause 1 equipment in 69605-1 is not restricted by end-use. It is however qualified by the term "scientific" which the Board has taken to indicate a general research orientation. Clause 12 equipment is defined as for use directly in teaching and research. Mechanical equipment on the other hand is subject to no such end-use restriction. Despite the deviation in existing clause 13, the Board concluded that it would be consistent with the spirit of the existing tariff item to maintain an end-use provision in the new nomenclature related as closely as possible to the objectives of the potential beneficiaries. These objectives depend upon the nature of the qualifying institutions; the need to identify different end-uses is discussed later in more specific detail in the section on Beneficiaries and End-Use.

The retention of end-use provisions in the new equipment item continues the existing administrative load for both users and administrators. For these reasons, the Board would have preferred to dispense with the

end-use concept but concluded that both beneficiaries and officials need some guidance as to the nature of the equipment the tariff item is intended to cover, in order to place some reasonable limits on the goods for which duty remission can be claimed. It should be noted in this connection that decisions as to end-use qualification would, regardless of the establishment of a duty remission programme, be subject to regular appeal procedures under the *Customs Act*. The Board has not, in its experience, found that there are specially difficult problems of interpretation in appeals involving end-use questions either under the *Customs Act* or the *Excise Tax Act*.

Clause 11

Proposal- *Chemical and biological preparations of a kind not produced in Canada when for use in medical diagnosis by public hospitals.*

Free Entry

The Board's analysis has revealed that a substantial proportion of the goods covered by clause 11, "scientific preparations ...for use directly in teaching, research or medical diagnosis," enjoy FST-free status elsewhere, either because they are medicinal or pharmaceutical preparations or because they are acquired by public hospitals. Thus elimination of this clause would, from the point of view of the FST, mainly affect chemical preparations, including isotopes and laboratory reagents, used by institutions other than public hospitals, i.e. primarily universities and government departments and agencies.

The main benefit to institutions under clause 11 is duty exemption; only isotopes and a small number of pharmaceutical preparations such as sera would have duty-free status elsewhere. The alternative rates of duty for most of these products range from 15 to 17½ p.c. M.F.N. Free entry has particularly affected domestic producers of laboratory reagents; such products account for close to 60 per cent of total clause 11 imports. There are at least four domestic producers of these goods, and 69605-1 institutions constitute more than half of the domestic market.

It is felt that these producers could make substantial gains in the institutional market if duty exemption were abolished. The Board was inclined to recommend the elimination of this clause in its entirety because of the alternative benefits available. However, there was some concern that certain special low-volume reagents and pharmaceutical and biological preparations needed by public hospitals for diagnostic purposes and not available from domestic production would as a result become unnecessarily dutiable. To avoid this situation, a separate item providing free entry for such goods is proposed. The wording of that item has been modelled on similar nomenclature in Group VI of the *Customs Tariff Schedule*. It was not considered possible to recommend a duty remission programme for these or other goods now entering under Clause 11 because they do not lend

themselves to such treatment. The Board could not agree with the proposal to extend the end-use to include medical treatment since such action would involve changes in the tariff schedule well beyond the scope of this inquiry or the intent of tariff item 69605-1.

Clauses 2 to 10 Inclusive

Proposal- *Moulded glassware for laboratory use;
Maps, charts, motion picture films, filmstrips,
microfilm, slides and other photographic
reproductions and pictorial illustrations:
Pamphlets and magazines;
Reproductions of works of art;
Sound recordings and video tape recordings;
Models, static or moving;
Parts of the foregoing.*

All of the foregoing when for the use of:

...

Free Entry

Add to
Tariff Item *Moulded glassware for laboratory use;*
47605-1

Add to
Tariff Item *For transfusion.*
20630-1

Glassware for laboratory or scientific uses, clause 2, comprises essentially two groups of products; moulded glassware and fabricated glassware. Fabricated glassware is produced by at least one domestic manufacturer as well as by a number of institutions for their own use. 69605-1 institutions constitute by far the main market for fabricated laboratory glassware and the Board concluded that elimination of duty free entry for these goods under this tariff item would be beneficial to domestic production. The rates of duty which would apply would be 15 p.c., M.F.N.

It should be noted that tariff item 20630-1, covering *inter alia* human blood containers,⁽¹⁾ constitutes a possible free-entry escape item if the recommendation to make fabricated glassware for institutional use dutiable is implemented. While the wording and history of this item would indicate that it was intended to cover goods associated with human blood for transfusion, it would appear that in recent years a more flexible interpretation has allowed free entry of fabricated glassware used in the

(1) See Background No. 6, Table IVA.

storage of blood for testing and analysis. Although the volume of imports under this possible alternative has been relatively small, it could grow substantially if duty free entry under 69605-1 is eliminated. The Board has therefore recommended the amendment of 20630-1 to make clear that it refers to blood for transfusion.

Moulded glassware is not now produced in Canada, nor is it likely to be produced in the foreseeable future. Therefore, the Board is making provision for these products to remain free of duty when "for laboratory use" for the main existing beneficiaries, including public hospitals. In the case of public hospitals, it is recommended that this be achieved by an appropriate addition to the commodity description of tariff item 47605-1.

The Board considered dropping the reference to glassware completely inasmuch as laboratory glassware whether moulded or fabricated would be subsumed under the apparatus or utensils enumerated in the new equipment item. However these goods are quite different from machinery, apparatus, instruments etc., and do not lend themselves readily to the availability decisions required in a duty remission programme.

With respect to the other commodity clauses, the Board concluded that clauses 9 and 10, animals and living plants, etc., should be deleted. Institutions can obtain these goods duty- and FST-free under other provisions, and imports under 69605-1 have been minimal. Deletion of clause 7 "stencils and cards for library index cards" is recommended as well. The Board received representation to the effect that this provision was insignificant and could be removed without harmful effect on institutional end-users.

All other clauses are retained as they are. Consideration was given to deleting most of these as well, inasmuch as tariff item 69615-1 already provides duty and FST exemption for these goods with the important exception of pamphlets and magazines. However, entry under 69615-1 is conditional upon meeting the detailed validation conditions attached to the *Beirut Agreement*;⁽¹⁾ the Board was reluctant to impose those requirements on the beneficiaries in question. A provision for duty-free entry of parts has been included to cover *inter alia* unexposed film and unrecorded sound and video tapes.

Beneficiaries and End-Use

Proposal- Goods enumerated in the new equipment item:

*When for use directly in teaching or research by:
Any elementary or secondary school, school for the
handicapped, university, community college or
seminary in Canada;*

(1) *Agreement for Facilitating the International Circulation of Visual and Auditory Materials of an Educational, Scientific and Cultural Character.*

The National Research Council or any like research establishment set up under the authority of any provincial or territorial government; or
Any non-profit non-governmental society or institution incorporated or established in Canada solely for educational purposes or solely for the purpose of carrying out research designed to benefit the public at large: or
When for use in the conservation, restoration, exhibition or circulation of artifacts, specimens, records, works of art and library collections, by:
Any non-profit public libraries or non-profit public museums (including art galleries, archives, historical houses and sites, zoological gardens, planetaria, botanical gardens, aquaria, and nature centres);...

The Board considers that its recommendations regarding the establishment of a duty remission programme for the equipment now enumerated in 69605-1 and the elimination of special tariff treatment for fabricated glassware and certain scientific preparations constitutes an appropriate response to the legitimate concerns of domestic manufacturers. The Board's approach to the selection of appropriate beneficiaries was generally to maintain the existing coverage and to develop proposals designed to make the identification of qualified institutions more specific, to eliminate unnecessary overlaps and to adhere as closely as possible to the apparent intent of tariff item 69605-1 as now worded. The net result of this approach was a rearrangement of the beneficiaries as they relate to the goods enumerated and the end-use specified.

In the case of the new equipment item, the decision to include an end-use provision that would delineate the nature of the equipment more specifically necessitated breaking down the qualifying institutions into two groups, educational and research organizations, and public libraries and public museums. The basic functions of these two groups differ substantially, so that a single end-use provision would favour one group more than the other. Universities and schools are engaged primarily in teaching and research, and therefore their eligibility, as well as that of other educational and research organizations, is confined to equipment used directly in teaching or research. Public libraries and public museums may, however, not be involved in either of these activities, and might thus benefit very little if the same end-use restriction applied to their equipment purchases. They share what the Board saw loosely as a "collection" and "exhibition" function. This has been translated in the recommended tariff wording into an end-use of "conservation, restoration, exhibition or circulation of artifacts, specimens, records, works of art and library collections."

More specifically within the group engaged in teaching and research, the Board sought to remove the definitional problems associated with the existing terminology by a wording indicating that all institutions providing regular day-time course instruction leading to a certificate or

diploma of graduation at the elementary, secondary or post-secondary level should be eligible, both private and public and whether or not operated by a department of government. The same privilege would be extended to all schools for the instruction and training of handicapped persons as well as to seminaries.

The Board recognized that the identification of societies or institutions established solely for a particular purpose is a difficult task. It would have been preferable from the administrative standpoint to eliminate this general description of beneficiaries in favour of the more specific naming of institutions. There are however a variety of organizations in the field of education and research which should continue to receive the benefits available from tariff and sales tax exemption but which do not lend themselves to *eo nomine* identification. The Board also considered that eligible research organizations should not be limited to those oriented to the natural sciences. The "humanities" or social sciences seem equally deserving. These institutions should however be non-profit non-governmental organizations and their research should be designed to benefit the public at large rather than their own members or a particular group in society. The Board has adopted wording from the *Corporations Act* to emphasize this latter point.

The only exceptions to the non-governmental *proviso* would be organizations such as the National Research Council and the Economic Council of Canada named in Schedule "B" to the Financial Administration Act and like organizations at the provincial or territorial government level. The Board gave special consideration to the position of the National Research Council and concluded that its role in the encouragement of research in this country and the impact of the benefits of this tariff item on its activities were sufficiently important to warrant its specific inclusion as a beneficiary. The Board believes that the involvement of the Council as a qualified end-user in the recommended duty remission programme would be an important contributing factor to the success of that programme.

The end-use provisions in the second grouping and the listing of institutions which can be equated to public museums are based largely on the recommendations of the National Museums Association of Canada and on an assessment of the major functions of these beneficiaries. All of these institutions, in order to qualify, should be non-profit and accessible to the public on a regular basis, whether they are governmental or not. The nature of the end-use provision will restrict their benefits somewhat with respect to the free entry of mechanical equipment but will extend them with respect to other apparatus, utensils and instruments at present restricted to teaching or research purposes.

Collections maintained in libraries or museums operated by universities or other bodies qualifying under the first part of the end-use provision of this item are considered by the Board as being part of the teaching and research facilities of the bodies in question. Imports of utensils, apparatus and instruments for use in such libraries or museums

would thus be included in the equipment item and therefore be eligible for inclusion in the remission programme.

The Board also concluded that religious organizations could be removed from the equipment item. They appear to have made little use of the equipment clauses of 69605-1, their major interest being in educational materials such as films covered by the recommended free entry item. If a religious organization runs a school or other institution named in the equipment item, that institution will as a matter of course qualify on its own. For similar reasons, organizations established solely for "literary purposes or for the encouragement of the fine arts (namely architecture, sculpture, engraving and music)" have been omitted. The Board received no representations indicating any equipment requirements for organizations of this nature engaged in teaching.

Public hospitals were removed from the list of beneficiaries for the equipment item on the grounds that they can obtain the bulk of this equipment duty free under other tariff items and that they enjoy blanket FST exemption. The inclusion of public hospitals would have required enlargement of the end-use provisions to include medical diagnosis and the Board was satisfied that this benefit is already available through the free entry of diagnostic instruments under tariff item 47600-1.

Proposal - Goods enumerated in the Free Entry item:

*All of the foregoing when for the use of:
Any elementary or secondary school, school for the
handicapped, university, community college or
seminary in Canada; the National Research Council
or any like research establishment set up under the
authority of any provincial or territorial govern-
ment; or
Any of the following non-profit organizations or
institutions in Canada: religious organizations,
public libraries, public museums (including art
galleries, exhibition centres, archives, historical
houses and sites, zoological gardens, planetaria,
botanical gardens, aquaria and nature centres) and
non-governmental societies or institutions incor-
porated or established in Canada solely for educational
purposes or solely for the purpose of carrying out
research designed to benefit the public at large;...*

The general end-use provisions applicable to the equipment item are omitted from the free entry item as being unnecessary in relation to the goods enumerated there. For the purpose of this item, the institutions listed in the equipment item would qualify, as well as religious organizations which had been excluded from that item.

Public hospitals would in any event have FST exemption and were not shown to benefit from duty-free importation of the enumerated goods other than moulded glassware for laboratory use. Since this benefit is to be restored to hospitals through tariff item 47605-1, there is no requirement for the listing of public hospitals here. Literary organizations and those engaged in the encouragement of the fine and performing arts benefit primarily from FST exemption on pamphlets and magazines. However, this benefit relates largely to domestically produced goods. The volume of their imports of these goods imported under 69605-1 is very small and therefore, there appears to be no need to retain these organizations as beneficiaries for tariff purposes. Indeed their removal makes for a less complicated tariff item. Compensation for the resulting loss of sales tax benefits on locally-produced purchases is discussed in greater detail in the section below dealing with Federal Sales Tax. Reference is also made there to assistance for certain social service organizations in the health and counselling fields.

Tariff Item 69610-1

The Board recommends deletion of tariff item 69610-1 on the grounds that it will no longer be necessary in the light of the Board's other recommendations. Free entry was accorded under this item to assist Canadian producers to compete against the duty-free entry of finished products under tariff item 69605-1. Some of the articles mentioned in 69610-1 would, under the Board's recommendations, now enter under the provisions for "parts" but this benefit will apply, of course, only to the named beneficiaries. Since protection for the finished product will now be accorded to Canadian manufacturers under the equipment item, the Board can see no justification for continuing the free entry provisions for articles and materials as they pertain to Canadian manufacturers.

Regulations

The Minister's letter of reference asked the Board to consider the feasibility of establishing criteria for the designation of the beneficiaries of special tariff treatment. After a careful examination of the various possibilities, the Board concluded that the more precise identification of beneficiaries could best be achieved by changed and strengthened wording within the tariff item (or items) and by the promulgation of ministerial regulations defining those words in the tariff nomenclature which might be subject to misinterpretation. As a result, two of the recommended items retain the provision that authorizes the Minister to make regulations with respect to the importation of goods under those items. The Board proposes that the Minister of National Revenue issue regulations defining the terms "non-profit" and "non-governmental" for the reasons outlined below.

Non-Profit: The term has been used to effect the exclusion of institutions such as museums, zoological gardens and research organizations which are operated with a view to earning a

return to the owners. Non-profit organizations generally are covered by Part II of the *Canada Corporations Act* from which the recommended definition has been derived.

Non-Governmental: This term has been introduced to effect the exclusion of governmental research and/or educational operations, often carried out as one of the functions of some larger department or agency, if those operations are not performed by a specifically named institution such as the National Research Council or the Royal Military College which would qualify as a university. Since it is not the Board's intention to exclude other federal or provincial research or educational organizations of the type listed in Schedule B in the *Financial Administration Act*, it has been thought necessary to propose a definition of the term "non-governmental" which would not exclude such organizations.

Federal Sales Tax

An important consideration with respect to tariff items 69605-1 and 69610-1 has been the federal sales tax exemption afforded under the two items through their inclusion among the items listed in Part VII of Schedule III to the *Excise Tax Act*. To some extent this exemption duplicates exemptions elsewhere in Schedule III - e.g. the exemption on hospital purchases in Part VIII.⁽¹⁾ Because of this duplication, it will not be necessary to list in Schedule III the new item for preparations for medical diagnosis for use by public hospitals.

The removal of NMIC provisions from the new equipment items eliminates the anomaly created by existing clauses 12 and 13. Under a duty remission programme there would no longer be a distinction for sales tax purposes between utensils, apparatus and instruments not made in Canada and those having "Made in Canada" status. All goods under the new equipment item would be exempt from tax whether or not the duty is remitted. The Board therefore recommends that the sales tax exemption continue to be linked to the tariff items successor to 69605-1 by adding them to Part VII of Schedule III of the *Excise Tax Act*. It should be noted that sales tax exemption available to qualified users under the new equipment item would be considerably broader than at present.

Certain institutions, such as literary societies and societies for the encouragement of the fine arts, which are now listed among the beneficiaries of tariff item 69605-1, are not included as beneficiaries in the Board's recommendations. It has been found that these organizations take little or no advantage of the duty-free entry privileges available to them; they derive their principal benefit from the FST exemption afforded on the purchase of domestic goods. The Board recommends that the Minister consider amending Schedule VII so as to continue to extend FST relief to

(1) See Background No. 6, Section IV, page 120, for a full listing of alternative FST-free provisions.

those types of organizations and that the coverage be broadened to include the performing as well as the fine arts.

The Board noted that amongst the borderline beneficiaries to 69605-1 identified during the course of this inquiry there was a fairly sizeable group of social service organizations operating in the fields of physical and mental health, rehabilitation, family planning or family counseling. Although no firm figures were presented and the Board received only one submission from an organization of this nature, it seems likely that these groups have derived a fairly substantial benefit from FST exemption on domestically-produced goods of the type enumerated in the recommended free item. This benefit will be lost if the Board's recommendations on 69605-1 are implemented. Indeed, the Board does not consider these to be qualified organizations under the current wording of the tariff item. On the assumption that the government might wish to continue these benefits under some other authority, the Board is recommending their restoration through appropriate amendments to the Exemption Schedules of the *Excise Tax Act*.

IMPLICATIONS OF RECOMMENDATIONS

The Board's recommendations to reduce the present scope of tariff item 69605-1 and to eliminate 69610-1 will result in a substantial shift of imports from these to other tariff items. Total 69605-1 imports, in terms of 1977, will be cut by at least \$100 million, or by more than half. About \$40 million of this will come from the diminished coverage for scientific preparations and laboratory glassware, from the application of availability of scientific equipment, and from the other small adjustments to eligible goods. The remaining \$60 million will come from the elimination of federal and provincial government departments, agencies, and corporations, public hospitals and minor other beneficiaries. Furthermore, the \$7.7 million entered free of duty under 69610-1 will also enter elsewhere.

As pointed out throughout the report, only a portion of the imports no longer eligible for duty exemption under 69605-1 and 69610-1 would in fact become dutiable. Of the \$100 million shift it is estimated that some \$45 million would continue to come in duty-free elsewhere in the tariff schedule. Duty benefits would evidently decline for certain eligible institutions but this loss is likely to be offset by the greater FST benefits resulting from extension of tax exemption to equipment available from domestic production. Overall, their situation would therefore undergo little change.

Total Canadian imports of scientific equipment, laboratory glassware and reagents under the existing and new tariff items would be reduced to the extent that domestic manufacturers increase their output in the new circumstances resulting from an implementation of the Board's recommendations. This impact will probably be spread over a number of years and may therefore not be immediately apparent. Although the Board feels that \$15 -

\$20 million is a reasonable estimate of this incremental output, it recognizes that this figure is an approximation and depends on a number of other factors affecting this industry.

The Board is of the opinion that its recommendations constitute the most equitable manner of handling the concerns of both the institutions and domestic producers. The Board also believes that its tariff proposals present the scientific equipment industry in Canada with considerable opportunity for expansion and growth. At the same time it recognizes that these recommendations focus on only one part of the total environment in which the industry operates. Such factors as the availability of risk capital, technical and innovative skills, procurement policies, and the thrust of overall research and development in the economy are also important considerations. Strong supportive action in these or related areas will be necessary if the fullest benefits from the Board's recommendations are to be realized.

RECOMMENDATIONS

The Board recommends:

1. That Schedule A to the *Customs Tariff* be amended by striking out tariff item 69605-1, and the enumeration of goods and rates of duty set opposite that item, and by inserting in the said Schedule, with appropriate tariff item numbers, the following enumerations of goods and rates of duty:

British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff
--	--	-------------------	--

-
- I Apparatus, utensils and instruments, and parts thereof,
 When for use directly in teaching or research by:
 Any elementary or secondary school, school for the handicapped, university, community college or seminary in Canada;
 The National Research Council or any like research establishment set up under the authority of any provincial or territorial government;
 or
 Any non-profit non-governmental society or institution incorporated or established in Canada solely for educational purposes or solely for the purpose of carrying out research designed to benefit the public at large; or
 When for use in the conservation, restoration, exhibition or circulation of artifacts, specimens, records, works of art and library collections, by

British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff
--	--	-------------------	--

non-profit public libraries or non-profit public museums (including art galleries, archives, historical houses and sites, zoological gardens, planetaria, botanical gardens, aquaria, and nature centres);
And not for sale or rental unless to those mentioned herein;

Under such regulations as the Minister may prescribe ...

The rates of duties set out opposite the appropriate enumeration of goods elsewhere in Schedule "A"

Except that in the case of the importation into Canada of any goods enumerated in this item, the Governor in Council on the recommendation of the Minister of Industry, Trade and Commerce may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified in this item applicable to the goods, and subsections 17(2), (3), (4), (5) and (8) of the Financial Administration Act apply in the case of a remission granted under this provision.

II Moulded glassware for laboratory use;

Maps, charts, motion picture films, filmstrips, microfilm, slides and other

British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff
--	--	-------------------	--

photographic reproduc-
tions and pictorial illus-
trations;
Pamphlets and magazines;
Reproductions of works of
art;
Sound recordings and video
tape recordings;
Models, static or moving;
Parts of the foregoing.

All of the foregoing when for
the use of:

Any elementary or secondary
school, school for the
handicapped, university,
community college or semi-
nary in Canada; the
National Research Coun-
cil or any like research
establishment set up under
the authority of any prov-
incial or territorial
government; or

Any of the following non-
profit organizations or
institutions in Canada;
religious organizations,
public libraries, public
museums (including art
galleries, exhibition
centres, archives, histor-
ical houses and sites, zoo-
logical gardens, planetaria,
botanical gardens, aquaria
and nature centres) and non-
governmental societies or
institutions incorporated
or established in Canada
solely for educational pur-
poses or solely for the
purpose of carrying out re-
search designed to benefit

British Prefer- ential Tariff	Most Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff
--	---------------------------------------	-------------------	--

the public at large;

And not for sale or rental un-
less to those mentioned
herein;

Under such regulations as the
Minister may prescribe ...

Free	Free	Free	Free
------	------	------	------

III Chemical and biological prep-
arations of a kind not
produced in Canada when
for use in medical diag-
nosis by public hospi-
tals

Free	Free	Free	Free
------	------	------	------

2. That Schedule A to the *Customs Tariff* be amended by striking out tariff item 69610-1, and the enumeration of goods and the rates of duty set opposite that item.
3. That Schedule A to the *Customs Tariff* be amended by striking out the enumeration of goods set opposite tariff item number 47605-1 and by inserting in its place the following enumeration of goods:

Operating room lights designed to minimize shadow, not including bulbs, of a class or kind not made in Canada; chairs and tables for surgical operating purposes; infant incubators; infant and patient medical-alert or identification devices including beads, tapes and ribbons of any material, cases therefore and equipment for their application; electrocardiographs, paper and sensitized film for use therein; apparatus for sterilizing purposes, including bedpan washer-sterilizers but not including washing nor laundry machines; *moulded glassware for laboratory use*; parts of all the foregoing; electroencephalographic paper. All for the use of any public hospital, under such regulations as the Minister may prescribe.

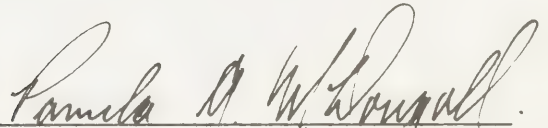
4. That Schedule A to the *Customs Tariff* be amended by striking out the enumeration of goods set opposite tariff item number 20630-1 and by inserting in its place the following enumeration of goods:

Containers, whether or not partially filled with anticoagulents, and units consisting of such containers and accessories; filters, drop counters, clamps, tubes, bail bands, labels, corks, stoppers, or other closures; all the foregoing for use in the collection, preparation, storage, transportation or administration of human blood *for transfusion* (whether whole or in the form of liquid or dry serum or plasma) and extenders or substitutes therefore.

5. That Schedule III to the *Excise Tax Act* be amended by deleting from Sections 1, 3 and 4 of Part VII thereof the tariff item numbers 69605-1 and 69610-1 and by inserting therein the numbers assigned to Items I and II of Recommendation 1.
6. That the Minister consider amending Schedule III to the *Excise Tax Act* to exempt from the Consumption or Sales Tax the goods enumerated in Clauses 2, 3, 4, 5 and 6 of Recommended Item II, and parts thereof, purchased by any non-profit, non-governmental society or institution incorporated or established solely for literary purposes or for the encouragement of the fine or performing arts.
7. That the Minister consider amending Schedule III of the *Excise Tax Act* to exempt from the Consumption or Sales Tax the goods enumerated in Clauses 2, 3, 4, 5 and 6 of Recommended Item II, and parts thereof, purchased by any non-profit, non-governmental social service organization operating in the fields of physical and mental health, rehabilitation, family planning or family counselling.
8. That, under the authority contained in Recommended Items I and II, the Minister of National Revenue should prescribe, for the purposes of these items, the following regulations governing "non-profit" and "non-governmental" organizations:

"Non-profit" organizations are those established or organized to carry out specified purposes without pecuniary return to their members or shareholders other than as salaries or fees for duties performed or as reimbursement of expenses incurred.


"Non-governmental" organizations shall be deemed to include, *inter alia*, those educational or research organizations named in Schedule B to the *Financial Administration Act* and any like educational or research establishment set up under the authority of any provincial or territorial government.



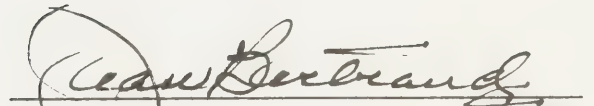
 Chairman



 First Vice-Chairman



 Member



 Member

Ottawa, August 31, 1978

LETTER OF REFERENCE

Ottawa, Ontario
K1A 0G5
June 16, 1977

Miss P. A. McDougall,
Chairman,
Tariff Board,
365 Laurier Avenue West,
Ottawa, Ontario.
K1A 0G7

Dear Miss McDougall:

Tariff item 69605-1 was last reviewed by the Tariff Board in 1964-1968 as part of Reference No. 134, Equipment for Hospitals and Other Institutions. Since that time, this tariff item has continued to be the subject of conflicting representations from various groups.

On the one hand, Canadian producers have made representations to the effect that only goods which are not made in Canada should be allowed duty-free entry under the tariff item. They claim that the existing broad duty-free entry provision under tariff item 69605-1 combined with the tariff protection provided in foreign markets tends to discourage the location of production facilities in Canada.

On the other hand, the institutions entitled to use the tariff item claim that narrowing the present exemption would seriously affect the cost and quality of the services they provide.

A number of problems have also developed with respect to the administration of the tariff item. Among these are: the designation of the institutions allowed to use the tariff item; the definition of the word "scientific" when associated with goods such as instruments, apparatus and preparations; the detailed record-keeping involved when an end-use is specified, i. e. for use directly in teaching or research.

For these reasons, I believe that it would be desirable for the Board to re-examine this tariff provision in the light of present circumstances. I, therefore, direct the Tariff Board to make a study of and report under section 4(2) of the Tariff Board Act on tariff items 69605-1 and 69610-1. The Board's study should include, among other things, the kinds of institutions or organizations which should be entitled to this special exemption, the conditions, if any, under which duty-free entry should be allowed, and the sorts of goods which should be accorded duty-free entry.

Regarding the beneficiaries of the duty-free provision, the Board should consider the feasibility of establishing criteria for their designation. The Board may also include in its review any other tariff item which it may consider pertinent to a thorough examination of these matters.

If the Board should find that amendments to the Customs Tariff are desirable, I would request it to make appropriate recommendations to this effect.

I would also ask the Board to submit its report on this reference as soon as may be consistent with a careful examination of all the issues involved.

Yours sincerely,

(Signed) Donald S. Macdonald.

THE TARIFF BOARD



LA COMMISSION DU TARIF

NOTICE R-190

TARIFF BOARD INQUIRY
REFERENCE NO. 155

EXEMPTION FROM DUTIES FOR CERTAIN INSTITUTIONS
AND GOODS UNDER TARIFF ITEMS 69605-1 AND 69610-1

The Minister of Finance has directed the Tariff Board to conduct an inquiry into the above subject. These tariff items at present provide for duty free importation of certain goods by societies and institutions of a religious, educational, medical, scientific, literary or artistic nature. Goods entered under these two tariff items are also exempt from federal sales tax.

The Board wishes to receive preliminary expressions of interest, points of view or concern and information which will enable the Board to define the scope of this inquiry. The Board intends in due course to arrange for public hearings and those groups, companies or individuals that express an interest in the following and/or contributing to this inquiry will of course be kept informed of these subsequent arrangements.

The intricacies of tariff item 69605-1 and its related item 69610-1 have already been the subject of scrutiny as part of a report by the Tariff Board entitled "Equipment for Hospitals and other Institutions" (Reference No. 134) tabled in Parliament in 1968. The attached Tariff Board background on this current inquiry contains the texts of the Minister's Letter of Reference and of the tariff items in question, relevant extracts from the Tariff Board's Report on Reference No. 134, and other information or statistical material designed to put the present inquiry in context, to indicate the range of goods and institutions involved, and to give preliminary assistance to those who in due course may wish to make oral or written submissions to the Tariff Board on this issue.

Because of the wide-ranging nature of the goods and institutions affected by these tariff items, the Board will have to make special efforts (a) to identify and contact the intended beneficiaries of these duty-free privileges; (b) to devise means of quantifying and assessing the financial advantages these privileges may confer as well their adverse impact on Canadian manufacturers; and (c) to limit the scope of the inquiry so that the major issues can be adequately handled within a reasonable period of time. The Board will need the full co-operation and support of the concerned institutional and business community to achieve these objectives. It plans therefore to devote considerable time prior to the public hearings to informal contacts and exchanges of views which will, it hopes, alert and draw reactions from the interested constituency. As to the scope of the inquiry, the Board does not intend to repeat the detailed investigations which were undertaken in Reference 134 but rather, using that report as background information, to focus its

attention on the broader issues which have given rise to this current reference.

These broader issues as contained in the Minister's Letter of Reference are seen in simplest terms to be the following:

1. Should duty free entry under tariff items 69605-1 and 69610-1 be confined to goods of a class or kind not made in Canada;
2. Which institutions should be entitled to duty-free entry and can criteria be established more clearly to identify these institutions;
3. Should the existing end-use provisions in the tariff items be expanded, changed or deleted;
4. What steps can be taken either through the wording of the tariff items or by other means to resolve the administrative problems of designation, definitions and record-keeping which the Minister of Finance has identified.

The Board's preliminary analysis of the scope of this inquiry indicates also that conclusions as to these four main issues will be influenced by the following related questions:

1. Does the tariff item as at present worded accomplish the purpose apparently originally intended, i.e. the granting of relief from duties otherwise imposed by the Customs Tariff as a means of aiding worthy purposes;
2. What are the costs to Canadian producers of these duty-free entry provisions and what are the real benefits to the intended beneficiaries;
3. In the changes circumstances of today, when public funding and transfer payments amongst different levels of government play a greatly increased role in the financing of hospitals, museums, universities and other institutions, has the tariff item become an anachronism for some or all of the beneficiaries;
4. What is the financial impact, on these societies and institutions and on Canadian manufacturers, of the exemption from sales tax granted in Part VII of Schedule III of the Excise Tax Act to goods enumerated in tariff items 69605-1 and 69610-1, whether imported or manufactured domestically.

At a later date the Board will invite the submission of formal briefs preparatory to public hearings. In the meantime the Board would welcome preliminary views on this inquiry and the approach outlined above. Those wishing to follow the course of this inquiry and/or to contribute in any way to the Board's deliberations are asked to indicate their interest so that their name can be added to the mailing list for

Reference 155. Provided preliminary comments of substance are of reasonable length, the Board will be happy to ensure their circulation to other interested parties in order to assist all concerned to prepare for the public hearings and to facilitate a free and informal exchange of views. In order to be of impact in the process the Board is contemplating, these comments should be received by November 30 at the latest.

ALL COMMUNICATIONS SHOULD BE DIRECTED TO:

THE SECRETARY
THE TARIFF BOARD
OTTAWA, ONTARIO
K1A 0G7

By Order of the Board,


Secretary

Ottawa, November 1, 1977

THE TARIFF BOARD



LA COMMISSION DU TARIF

NOTICE R-191

AVIS R-191

REFERENCE - 155Exemption from duties for
certain institutions and goods

The letter of the Minister of Finance of June 16, 1977 initiating the above Reference has been published in the Canada Gazette Part I (No. 45, Vol. III, November 5, 1977, p. 5987) and circulated to interested parties. In this notice the Tariff Board issues the following information with respect to the public hearing on this Reference.

PUBLIC HEARING

A public hearing will be held in the Board's courtroom at 365 Laurier Avenue West, Ottawa, commencing on Monday, April 17, 1978, at 10:00 a.m.

BRIEFS OR SUBMISSIONS

Interested parties are invited to prepare briefs or submissions containing proposals, with supporting facts and arguments, as to the class or classes of institutions, if any, and the nature and types of goods that should be afforded exemption from duty in any revised wording of tariff items 69605-1 and 69610-1. Such briefs or submissions should be filed in writing with the Secretary of the Board not later than Wednesday, March 1, 1978.

The Board wishes to focus attention and discussion at the public hearing on the main issues related to this Reference as they have been identified in the documents previously circulated. Those making written or oral submissions are asked to bear this context in mind in formulating their case.

Interested parties will receive two more background papers, in addition to BACKGROUND NO. 1 already issued, to assist them in the preparation of briefs or submissions. These papers will deal with the procedures and problems of administering the current tariff provisions, and will present a framework for analyzing the benefits and costs of the present exemptions.

RENOVI N° 155Exemptions, pour certaines institutions,
des droits sur certaines marchandises

La lettre du ministre des Finances en date du 16 juin 1977, instituant le renvoi en rubrique fut publiée dans la Gazette du Canada Partie I (No 45, Vol. III, le 5 novembre 1977, p. 5987) et circulée aux parties intéressées. Dans le présent avis la Commission du tarif fait paraître l'information relative à l'audience publique de ce renvoi.

AUDIENCE PUBLIQUE

Une audience publique sera tenue dans la salle d'audience de la Commission, au numéro 365 de l'avenue Laurier ouest, Ottawa, commençant lundi le 17 avril 1978 à 10 heures du matin.

EXPOSES OU MEMOIRES

On invite les parties intéressées à préparer des exposés ou mémoires présentant des propositions, ainsi que les faits et arguments pertinents, quant aux catégories d'institutions, le cas échéant, et le genre et les espèces de marchandises pour lesquelles il y aurait une exemption des droits dans le langage révisé des items tarifaires 69605-1 et 69610-1. Ces exposés ou mémoires doivent parvenir, par écrit, au secrétaire au plus tard le mercredi 1^{er} mars 1978.

La Commission désire concentrer l'étude et la discussion, lors de l'audience publique, sur les questions principales, qui ont été identifiées dans la documentation déjà circulée relative à ce renvoi. Ceux qui voudront présenter un mémoire, soit par écrit ou oralement, voudront bien prendre note de ce contexte lorsqu'ils prépareront leur cause.

Les parties intéressées recevront deux ou plusieurs livrets de documentation en plus de la documentation N° 1 déjà distribuée, afin qu'ils puissent s'en servir dans la préparation de leur exposé ou mémoire. Cette documentation traitera des modalités et des problèmes relatifs à l'administration des dispositions tarifaires courantes, et leur offriront un cadre pour l'analyse des coûts et bénéfices des exemptions actuelles.

NUMBER OF COPIES

Ten (10) copies of briefs or submissions should be filed with the Secretary; copies will be distributed by the Board only to interested parties who have filed briefs or submissions or upon specific request.

ATTENDANCE AT PUBLIC HEARING

Persons proposing to attend the public hearing should notify the Secretary not later than Thursday, March 23, 1978, in order to ensure that seating accommodation at the hearing will be available. Persons attending the hearing should bring with them all notices, briefs and documents which they may already have received.

AGENDA

An agenda will be mailed in advance of the public hearing.

Any further notices relating to this Reference will be sent to those already on the Board's mailing list for Reference 155; other parties interested in receiving such notices should request the Secretary to place their names on the mailing list.

All communications relating to this notice or to Reference 155 - Exemption from Duties for Certain Institutions and Goods, should be directed to:

The Secretary
The Tariff Board
Ottawa, Ontario
K1A 0G7

NOMBRE D'EXEMPLAIRES

Dix (10) exemplaires des exposés et des mémoires doivent être déposés entre les mains du secrétaire; ceux-ci seront distribués seulement aux intéressés qui auront présenté des mémoires, ou sur demande expresse.

ASSISTANCE A L'AUDIENCE

Les personnes qui se proposent d'assister à l'audience publique devront en informer le secrétaire au plus tard le jeudi 23 mars 1978, afin de s'assurer qu'il y aura place pour tous à l'audience. Les personnes qui assisteront à l'audience devront apporter les avis, exposés et documents qu'elles auront reçus.

PROGRAMME

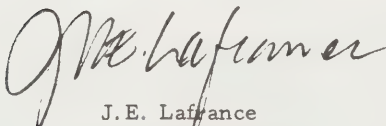
Un programme sera envoyé par la poste avant l'audience publique.

Les nouveaux avis relatifs à ce renvoi seront envoyés à ceux qui sont déjà sur la liste de distribution pour le renvoi N° 155; les autres intéressés, lorsqu'ils recevront ces avis doivent demander au secrétaire d'ajouter leur nom sur cette liste.

Toutes communications relatives à cet avis ou au renvoi N° 155 - Exemptions, pour certaines institutions, des droits sur certaines marchandises, doivent être adressées au:

Secrétaire
La Commission du tarif
Ottawa, Ontario
K1A 0G7

By Order of the Board/
Par ordre de la Commission


J. E. Lafrance
Secretary/Secrétaire

ATTENDANCE AT HEARING FOR REFERENCE 155

Abbott Laboratories Limited	Mr. Glenn A. Cranker Mr. C.M. Cornell Mr. N. Kazan
AOCO Limited	Mr. J.N. McKibbin
Association of Universities and Colleges of Canada	Mr. J.D.C. Thibault Mr. J.F. Houwing Mr. A.M. Kristjanson
Association of Canadian Archivists	Ms. Christine Ardern
American Hospital (Division of McGraw Supply Canada)	Mr. John Smye
Becton, Dickinson & Co. Canada Ltd.	Mr. J.W. McDowell
BDH Chemicals (Canada) Limited	Mr. John R. White
Bell & Howell (Canada) Ltd.	Mr. S. Davy Mr. A.B. Denaley
Canadian airlines	Mr. Robert J. Buchan
Canadian Association of University Business Officers	Mr. Ken Clements Mr. Y.R. Dubé Mr. D.J. Little
Canadian School Trustees Association	Mr. C.H. Witney
Canadian Association of University Research Administrators	Dr. Walter Hitschfeld
Canadian Association of University Teachers	Dr. D.S. Savage
Caledon Laboratories Ltd.	Mr. D. Brock
Canadian Cabinets Co. Ltd.	Mr. R.A. Eden
Canadian Dental Association	Mr. L.A. Stevenson
Canadian Association of Manufacturers of Medical Devices	Mr. G.A. Cornelius

Canadian Book Publishers Council and Gage Educational Publishing Ltd.	Ms. Margaret Rodgers
Canadian Museum Association	Mr. R.R. Inglis Ms. V. Dickenson
Canadian Hospital Association	Mr. C. Voelker Mr. J.D. Richard, Q.C. Mr. P.D.T. Roberts
Canadian Manufacturers' Association	Mr. K. Whittall Mr. G. Hughes Mr. John L. Orr
Corporation House Ltd.	Mr. G.P. MacPherson
Data General (Canada) Ltd.	M. Maurice Lepage
Du Pont of Canada Limited	Mr. C.L. Hagerman
Dalhousie University	Dr. Henry Hicks
Department of Finance	Mr. Brian Willis
Deloitte, Haskins & Sells	Mr. Y. Cyrenne
Foster Business Services	Mr. K.V. Sandford
G.T.E. Sylvania Canada Corporation	Mr. M.G. Malboeuf
Gowling & Henderson as observer for Art Centre	Ms. Monique Métivier
Harco Electronics Limited	Mr. Settler
Hoffman La Roche Ltd.	Mr. E. Black
Hydro Quebec	M. Maurice Landry
Herridge & Tolmie (counsel from)	Mr. John M. Coyne, Q.C.
Interdenominational Foreign Mission Association, Canada	Mr. J.E. Phillips
Interchurch Communications	Ms. Bonnie Brennan
Department of Industry, Trade & Commerce	Mr. R.W. Koski Mr. F.M. King Mr. C. Genet

INAX Instruments Ltd.	Mr. Ron Tolmie
Johns Scientific & the O.H. Johns Glass Company Ltd.	Mr. J. Paul Richards
Kendall Canada	Mrs. H. Sadler
J.W. Latimer	Mr. J.W. Latimer
Mallinckrodt Canada Limited	Mr. J.G. Holland
Mendelssohn - Commercial Limited	Mr. J.C. Paré
Ministry of State Science and Technology Canada	Ms. Jane Teeter
National Museums of Canada	Mr. Barry Lord
Ontario Association of School Business Officials	Mr. M. Hearn
Ortho Pharmaceutical (Canada) Ltd.	Mr. John P. Donnelly
Pharmacia (Canada) Ltd.	Mr. Gordon Hooper Mr. Michael E. Farley Mr. R.C. Halls
Polaroid Corporation of Canada Limited	Mr. Don S. Wood
Pfizer Co. Ltd.	Mr. A. Mansing
Ricketts, Jewell, Angus & Michael	M. Panet (agent for)
Revenue Canada, Customs and Excise	Mr. R. Wistaff Mr. Buckhart Mr. Hannan Mr. Wilson M. Lapointe Mr. F. Kazimiriw M. N.A. Maurice Demers Mr. B. Metcalfe
Seventh-Day Adventist Church	Mr. D.L. Michael
3M Canada Limited	Mr. T.F. Vine Mr. Bruce Turnbull
University of Western Ontario	Dr. George Connell

University of British Columbia & for
Canadian Association of University
Business Officers

Ms. J. Wilson-Brown

University of Ottawa Chemistry Branch

Dr. Conway

OBSERVERS:

Mr. Andrews
Mr. Frank Reid
Mr. H.M. Kelly, consultant
in customs

REFERENCE NO. 155

EXEMPTION FROM DUTIES FOR CERTAIN
INSTITUTIONS AND GOODS

Section I Import Statistics and Estimates

Section II Organizations Benefitting under Tariff
Item 69605-1

Section III The Manufacture of Scientific and
Professional Goods in Canada

Section IV Tariff Factors

Background No. 6

SECTION I: IMPORT STATISTICS AND ESTIMATES

The value of imports under tariff item 69605-1 has nearly tripled over the past eleven years, rising from \$69.1 million in 1966 to just under \$200 million in 1977 (see Table IA). Although no earlier figures are available for total imports under the tariff item, data exist up to 1963 for imports under commodity class 9141: "Philosophical and scientific apparatus for use by institutions, hospitals and schools; materials not mentioned elsewhere for use in the manufacture of such apparatus." Most of the imports under this class would have fallen under item 69605-1 and, up to about 1928, it is likely to have included virtually all imports under that item. In most recent years, imports coded to this class were probably equivalent to two-thirds of the total imports under tariff item 69605-1. Some historical comparisons are further provided in Table IB.

In viewing import trends it should be borne in mind that the increase shown is in part due to inflation. Nonetheless, wording revisions to item 69605-1, as well as administrative changes, both appear to have effected a broadening in the scope of this item. The marked increase in goods covered by item 69605-1 may also be attributable to the expanding budgets of the main beneficiaries involved (hospitals, governments, universities and schools) and also to a growing awareness, on the part of such end-users, of the benefits conferred by the item.

Imports under item 69605-1 have historically been almost entirely from the United States, that country accounting for 87.5 per cent of imports in 1977. Other major sources of imports are, in order of importance, West Germany, the United Kingdom, and Japan.

Somewhat unusual circumstances affect the reporting of import totals for item 69605-1, with resulting questions as to the accuracy of the recorded data.

Goods ultimately destined for those end-users entitled under 69605-1 are often initially entered under other tariff items and are dutiable. This occurs where importation is for general inventory and the end-user is not known. Such goods may subsequently, however, be sold to an institution entitled to duty free entry. In this case, a claim for duty refund is made and the goods in question, in effect, become diversions into item 69605-1. Such diversions are not taken into account in published import data, and to this extent the totals shown for item 69605-1 are therefore understated.

On the other hand, imports recorded under item 69605-1 reflect an overcount. This arises when certain importers, those granted a "stocking authority," enter goods duty free under the item; a portion of these goods are, in fact, often not sold to qualified end-users. In this instance the goods become dutiable under other tariff items and should not, strictly speaking, be counted under item 69605-1.

Based on a survey of refund submissions, the Board estimates that the undercount involved, from diversions into the item, was slightly under

\$20 million in 1977. The overcount, as described above, appears to be somewhat higher, being in the order of \$23 million. In view of the estimating procedures used, it has been concluded that these two adjustments to reported import totals can be taken as approximately offsetting one another. The Board accordingly is of the opinion that the recorded import data is of sufficient validity to be used without attempting any adjustment.

Tariff item 69610-1 is essentially an item ancillary to the main item and imports are relatively small, totalling \$7.7 million in 1977. Again, imports are preponderantly of U.S. origin.

Item 69605-1 is divided into 14 separate clauses. A further analysis of the item is accomplished by setting forth imports according to the applicable clause. This is provided in Table IC. While the data presented in this exhibit are based on detailed import descriptions ("7-digit" commodity classifications), they should be viewed in some cases as rough estimates. For example, it is not always possible to distinguish between "scientific" apparatus in clause 1 and "other apparatus" admitted under clause 12.

Table IC is of considerable usefulness as it indicates which clauses are of very minor importance, such as clauses 4 to 10 inclusive which together account for only some 1.5 per cent of imports. Clauses 2 and 3 are only of moderate significance. Goods covered under clause 1 and under clauses 11 to 14 inclusive account for over 90 per cent of imports under item 69605-1.

The information set forth in Table ID has been compiled to provide further details as to the type of commodities, goods and equipment entered under item 69605-1. For the clauses of main importance, this exhibit sets forth, under each clause, the principal commodity class descriptions applicable. The commodity class break-downs are presented in order of importance based on import value recorded. In some cases value figures cannot be provided for reasons of confidentiality.

Certain groupings of goods and equipment are peculiar to the end-user institutions qualified under item 69605-1. Many lines of scientific/professional goods are largely entered under this item. For certain commodity groupings, which can be identified, the result of item 69605-1 is to remove, sometimes almost entirely, the tariff protection which would otherwise be conferred. For example, in 1976 Canadian imports of laboratory reagents⁽¹⁾ totalled \$21.9 million. Duty free imports of these reagents under item 69605-1 amounted to \$16.2 million or about 74 per cent of all laboratory reagent imports. The latter percentage indicates that the existence of item 69605-1 is of considerable impact on Canadian producers of fine chemicals. For present producers, and for potential producers, the effect

(1) Includes "Laboratory Reagents" (c/c 429-99-70) and "Laboratory Reagents, Prepacked, Medical" (c/c 881-71-10).

of the item is to deny to them in large part the protection otherwise provided under the chemicals tariff.

Table IE enumerates those commodities where 50 per cent or more of total imports are duty free under item 69605-1. The impact of the duty free provisions of this item would appear to fall primarily on the domestic manufacturers of the goods listed and described. For reasons of confidentiality, not all data may be given.

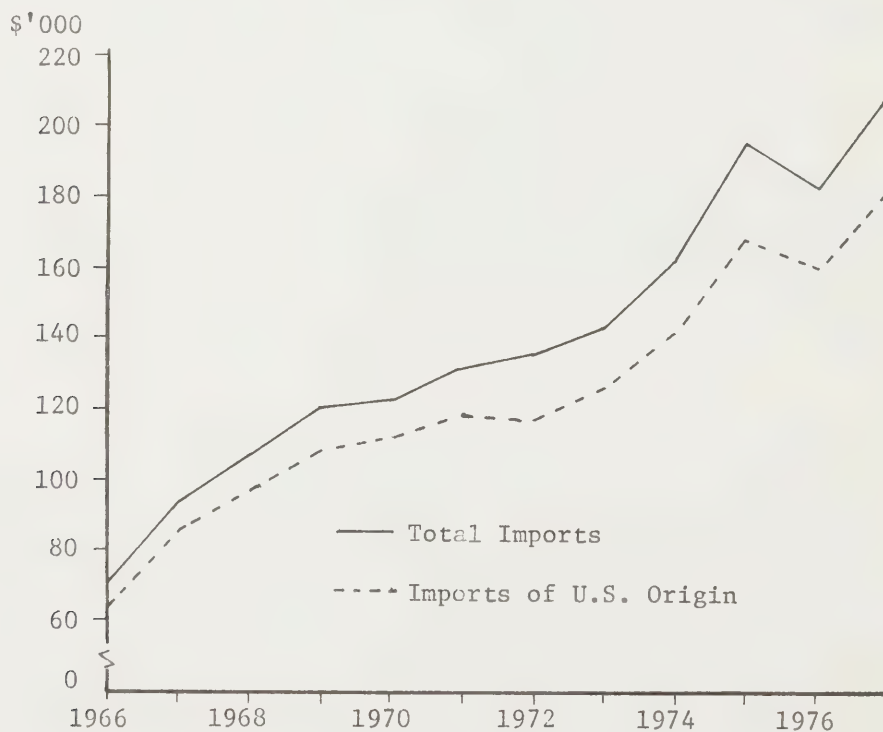
An accompanying chart⁽¹⁾ gives, for item 69605-1, the estimated composition of imports according to ultimate end-user. The figures given are derived from a Tariff Board survey of direct imports, that is, where the end-user is recorded on invoice documents, and also incorporates results of a Board survey of indirect imports, i.e. information provided by importer-wholesalers. From these two sources the Board was able to sample 46 per cent of 1976 total imports with respect to disposition to the final user. The estimates provided are for the year 1977, based on applying the percentages obtained from the 1976 study. As will be noted, educational institutions are estimated to account for the largest proportion (about 38 per cent) of imports under the item, followed closely by government organizations (about 35 per cent). Hospitals account for most of remaining imports.

With reference to ancillary item 69610-1, import information shows that this item largely covers parts related to the various articles and equipment referred to in main item 69605-1. Canadian manufacturing establishments are permitted duty free entry under 69610-1. Universities and other institutions qualified under item 69605-1 may also import under item 69610-1 to the extent that they assemble or "manufacture" certain goods for their own use, such as laboratory glassware. The composition of item 69610-1 is indicated in Table IF.

(1) See page 81.

Table IA: Imports Under Tariff Items 69605-1 and 69610-1, 1966-1978

	All Countries			United States		
	69605-1	69610-1	Total	69605-1	69610-1	Total
- Value, \$'000 -						
1966	69,138	1,284	70,422	62,590	1,264	63,854
1967	91,602	1,436	93,039	82,730	1,400	84,130
1968	104,128	2,723	106,851	95,109	2,335	97,444
1969	116,943	3,511	120,454	105,665	3,292	108,957
1970	117,664	5,069	122,732	107,834	4,880	112,714
1971	126,720	5,071	131,791	113,403	4,719	118,122
1972	130,921	5,027	135,949	112,704	4,614	117,318
1973	135,984	7,370	143,355	121,381	4,930	126,311
1974	150,760	10,178	160,938	134,506	6,945	141,451
1975	188,424	7,505	195,930	161,487	7,070	168,557
1976	175,641	6,709	182,350	153,938	6,415	160,353
1977	199,182	7,711	206,893	174,329	7,473	181,802
1978 ^(a)	129,120	3,684	132,804	111,590	3,477	115,067



(a) Preliminary figures for January to June.

Source: Customs documents tabulated by Statistics Canada.

Table IB: Estimated Imports Under Tariff Item 69605-1,
1876 - 1977, selected years

	Estimated Imports Under 69605-1	Total Canadian Imports	Estimated Imports under 69605-1 as a % of Total Canadian Imports
	\$'000	\$'000	%
1876	20	123,070	0.017
1886	15	104,425	0.014
1896	19	118,012	0.016
1906	62	266,834	0.023
1916	150	507,817	0.030
1926	129	1,008,342	0.013
1936	794	635,191	0.013
1946	3,811	1,927,279	0.198
1956	10,535	5,710,448	0.184
1966	69,138	9,886,439	0.701
1976	175,641	37,468,819	0.469
1977	199,182	42,155,973	0.472

Source: Statistics Canada, and Tariff Board.

Table IC: Tariff Item 69605-1:
Estimated Imports by Clause, 1976

Clause No.	Value \$	Per Cent of Total %
1 Scientific apparatus (and ancillary equipment thereto), utensils and instruments, including boxes containing them;	44,516,266	25.3
2 Glassware for laboratory or scientific uses;	7,026,220	4.0
3 Maps, charts, motion picture films, film-strips, microfilms, slides and other pictorial illustrations;	7,771,500	4.4
4 Pamphlets and magazines;	631,621	0.4
5 Reproductions of works of art;	154,615	0.1
6 Sound recordings and video tape recordings;	1,065,147	0.6
7 Stencils and cards specially designed for the preparation of library index cards;	7,263	*
8 Models, static or moving;	134,935	0.1
9 Animals as research or experimental subjects;	508,431	0.3
10 Living plants, seeds, cuttings, buds, scions, tubers, bulbs and root-stock;	10,908	*
11 Scientific preparations, including containers in which imported, for use directly in teaching, research or medical diagnosis;	27,759,127	15.8
12 Utensils, instruments and other apparatus not otherwise enumerated in the item, of a class or kind not made in Canada, for use directly in teaching or research:	19,161,507	10.9
13 Mechanical equipment not otherwise enumerated in this item, when of a class or kind not made in Canada;	28,461,903	16.2
14 Parts of all the foregoing;	38,432,082 ^(a)	21.9
Finished parts	36,245,555	
Materials	<u>2,186,527</u>	
Total	175,641,525	100.0

(a) Includes parts and accessories estimated at \$15.0 million which relate to scientific apparatus, utensils and instruments under clause 1.

Source: Tariff Board.

Table ID: Imports Under Tariff Item 69605-1
by Commodity Class and by Clause, 1976

	\$'000	% of Clause
<u>Clause 1:</u> "Scientific apparatus (and ancillary equipment thereto), utensils and instruments, including boxes containing them":		
Total imports under clause 1	44,516	100.0
of which:		
705-90-89: Laboratory instruments/apparatus n.e.s.	20,986	47.1
702-90-89: Elec. properties measuring insts. n.e.s.	2,880	6.5
709-95-10: Radiation monitors	2,310	5.2
709-99-89: Scientific instruments n.e.s.	2,002	4.5
708-90-11: Balances, precision	2,001	4.5
707-15-10: Colourimeters, electronic	1,549	3.5
705-90-82: Blood testing insts., lab. type	1,233	2.8
703-79-89: Measuring & measure/cont. insts. n.e.s.	924	2.1
705-90-72: Spectrometers, nmr	800	1.8
709-49-89: Physical props. test/inspect. equip. n.e.s.	765	1.7
<u>Clause 2:</u> "Glassware for laboratory or scientific uses"		
Total imports under clause 2	7,026	100.0
of which:		
705-08-11: Glassware, laboratory n.e.s., exc. slides	6,885	98.0
<u>Clause 3:</u> "Maps, charts, motion picture films, filmstrips, microfilms, slides and other photographic reproductions and pictorial illustrations"		
Total imports under clause 3	7,772	100.0
of which:		
918-13-21: Film, motion picture educational	4,072	52.4
918-39-21: Bibliofilms, processed	1,068	13.7
918-39-41: Microfilm, exposed	933	12.0
918-39-31: Film slides	586	7.5
894-09-90: Maps and charts, printed, not bound n.e.s.	214	2.8
894-09-30: Maps, geographical, printed	191	2.5
<u>Clause 11:</u> "Scientific preparations, including containers in which imported, for use directly in teaching, research or medical diagnosis"		
Total imports under clause 11	27,759	100.0
of which:		

Table ID (cont.)

	<u>\$'000</u>	<u>% of Clause</u>
<u>Clause 11: (concl.)</u>		
881-71-10: Lab. reagents, prepackaged, medical	11,273	40.6
429-99-70: Laboratory reagents	4,888	17.6
405-32-49: Isotopes radioactive, compounds n.e.s.	2,761	9.9
871-99-89: Biological products for humans n.e.s.	1,163	4.2
871-20-89: Blood and blood fractions n.e.s.	926	3.3
871-99-70: Reagents, diagnostic, biologic origin	642	2.3
871-65-20: Vaccine, influenza virus vaccine	X	X
405-32-29: Isotopes, stable and their compounds	X	X
<u>Clause 12: "Utensils, instruments and other apparatus not otherwise enumerated in the item, of a class or kind not made in Canada, for use directly in teaching or research"</u>		
Total imports under clause 12	19,162	100.0
of which:		
709-97-89: Training units n.e.s., for demo purpose	3,334	17.4
705-04-10: Plastic laboratory equipment	2,100	11.0
705-90-21: Constant temperature apparatus, laboratory	1,550	8.1
706-39-89: Medical diagnostic equip. n.e.s.	956	5.0
705-31-80: Chromatography equipment	938	4.9
706-09-89: Biomedical electronic equipment n.e.s.	862	4.6
709-97-11: Teaching kits, electronic	846	4.4
709-97-51: Flight simulator	802	4.2
709-99-81: Lasers n.e.s.	706	3.7
707-29-89: Optical apparatus/instruments n.e.s.	615	3.2
705-90-31: Animal behavioural equipment	342	1.8
705-90-61: Distillation equipment	332	1.7
<u>Clause 13: "Mechanical equipment not otherwise enumerated in this item, when of a class or kind not made in Canada"</u>		
Total imports under clause 13	28,462	100.0
of which:		
771-22-26: CPU/central processing unit/computer	2,622	9.2
706-89-89: Hospital, medical equipment n.e.s.	1,778	6.2
705-90-11: Centrifuges, laboratory	1,759	6.2
702-22-11: Recorders, strip chart	1,096	3.9
709-99-61: Data acquisition system/laboratory/	911	3.2
771-22-20: Computer, digital, single package unit	910	3.2
702-41-10: Oscillators, general-purpose	816	2.9
634-90-43: TV broadcast studio equipment	732	2.6
634-99-90: Telecommunications equipment n.e.s.	684	2.4

Table ID (concl.)

	<u>\$'000</u>	<u>% of Clause</u>
<u>Clause 13: (concl.)</u>		
655-19-30: Air conditioners, comb. heating & cooling	453	1.6
709-99-71: Electron microscope	430	1.5
771-22-54: Memory Core, computer, complete unit	X	X
<u>Clause 14: "Parts of all the foregoing"</u>		
Total imports under clause 14	38,432	100.0
of which:		
705-90-88: Laboratory instr./apparatus parts n.e.s.	7,323	19.1
771-22-90: Computer equipment, n.e.s.	3,660	9.5
771-22-88: Computer equipment parts, n.e.s.	3,372	8.8
639-99-90: Electronic equip. components, n.e.s.	1,943	5.1
702-90-88: Elec. props. measuring insts./parts n.e.s.	1,616	4.2
709-97-88: Demonstration equipment parts	1,532	4.0
703-95-80: Measuring/controlling instr. parts n.e.s.	1,333	3.5
707-15-88: Spectrophotometer parts	1,206	3.1
707-10-88: Microscope parts	935	2.4
702-18-88: Oscilloscope parts	693	1.8
709-95-88: Nuclear radiation equip. parts	661	1.7
881-99-89: Medical supplies n.e.s.	636	1.7
771-22-81: Computer/elec. digital/parts, n.e.s.	387	1.0

Source: Tariff Board and Statistics Canada.

Table IE: Impact of Tariff Item 69605-1 on selected commodities, 1976^(a)

Commodity Description	Total Imports Under all Tariff Items	69605-1 Imports as % of Total Imports
	\$'000	%
705-90-29: Heating mantles, laboratory	58	99.4
709-97-51: Flight simulator	838	95.7
709-99-38: Oceanography equipment parts	605	94.8
708-90-11: Balances, precision	2,234	89.6
429-99-70: Laboratory reagents	5,831	83.8
705-08-31: Microscope slides, unused	894	83.5
705-90-71: Spectrometers, mass	589	81.3
705-31-88: Gas chromatography equipment parts	258	74.4
705-08-11: Glassware laboratory n.e.s. exc. slides	9,324	73.8
705-08-21: Porcelain laboratory equipment	137	70.8
881-71-10: Laboratory reagents, prepackaged, medical	16,065	70.2
705-90-89: Laboratory instruments/apparatus n.e.s.	30,931	69.0
871-99-70: Reagents, diagnostic, biologic origin	949	67.7
705-90-88: Lab. instr./apparatus parts n.e.s.	10,874	67.3
705-04-10: Plastic laboratory equipment	3,134	67.0
705-90-79: Spectrometers, n.e.s.	194	66.3
918-13-21: Film, motion picture educational	6,148	66.2
705-90-21: Constant temperature apparatus, lab.	2,343	66.1
703-25-21: Thermometers, laboratory	520	64.9
709-99-89: Scientific instruments n.e.s.	3,113	64.3
705-90-72: Spectrometers, nmr	1,267	63.2
708-90-17: Weight sets, laboratory balance	59	62.2
705-90-11: Centrifuges, laboratory	2,834	62.1
705-90-31: Animal behavioural equipment	555	61.6
709-97-61: Microscope slides, prepared	661	58.8
709-97-11: Teaching kits, electronic	1,462	57.9
918-39-21: Bibliofilms, processed	1,852	57.7
709-97-88: Demonstration equipment parts	2,670	57.4
918-39-41: Microfilm, exposed	1,626	57.4
707-15-10: Colourimeters, electronic	3,417	55.6
705-31-87: Gas chromatography equip. accessories	949	55.3
709-99-81: Lasers, n.e.s.	1,281	55.1
703-77-11: Electrolytic conductivity meas. equip.	1,318	54.8
634-39-60: Radar equip., land, fixed, exc. airport	9	53.2

Table IE: (concl.)

<u>Commodity Description</u>	Total Imports Under all Tariff Items	69605-1 Imports as % of Total Imports
	\$'000	%
709-99-21: Atmospheric research equipment	221	52.6
703-62-89: Meteorological instr./apparatus n.e.s.	919	52.4
634-99-60: Satellites, communication	243	X
405-32-29: Isotopes, stable & their compounds	791	X
871-99-33: Insulins	46	X
634-39-30: Navigational aids, radar	522	X
879-99-88: Distilled water, in vials	226	X
879-99-50: Anti-infective agents n.e.s.	442	X

(a) Indicates impact of duty free imports under 69605-1 as a per cent of total imports, for all seven digit commodity descriptions, where 69605-1 accounts for 50 per cent and over of total.

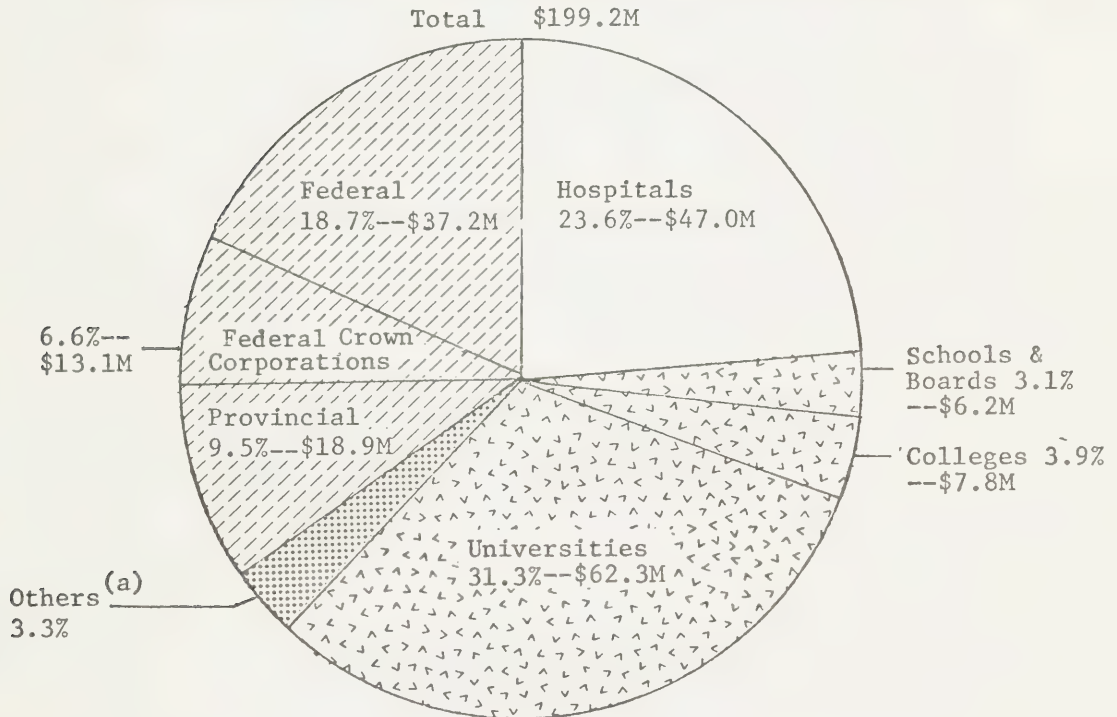
Source: Derived from Statistics Canada data.

Table IF: Imports Under Tariff Item 69610-1,
by Selected Commodity Groups, 1977

	Imports
	\$
<u>Professional and Scientific Equipment:</u>	2,959,943
Other measuring, testing and controlling instruments and equipment	1,756,038
Laboratory instruments and apparatus (excl. measuring optical)	878,529
Electrical properties measuring instruments	154,867
Miscellaneous measuring and measure-controlling instruments	85,175
Optical apparatus and instruments	67,886
Medical and related instruments and equipment	17,448
Scales and balances	-
<u>Electrical and Other Machinery and Equipment:</u>	2,106,113
Commercial and industrial telecommunication equipment	1,074,228
Electronic and related equipment components	675,768
Office machines and equipment	309,964
Other special industry machinery	36,406
Air conditioning and refrigeration equipment	9,747
<u>Chemical and Pharmaceutical Preparations, Including Surgical Supplies:</u>	106,503
Biological and Immunological Products	51,380
Other inorganic chemicals	30,665
Surgical and medical supplies, including veterinary and hospital	21,918
Industrial chemical specialties	2,540
Other pharmaceutical products	-
<u>Projection Apparatus, Photographic Equipment and Exposed Photographic Film:</u>	159,330
Other photographic equipment and supplies	123,062
Exposed photographic film	36,268
Projection apparatus and accessories	-

Source: Customs documents tabulated by Statistics Canada.

Estimated Imports Under Tariff Item 69605-1 by End-User, 1977



(a) Includes Museums (\$0.8M), Libraries (\$0.4M), Religious Institutions (\$2.6M), Charitable and other organizations (\$2.8M)

 Education

 Government

Source: Tariff Board.

SECTION II: ORGANIZATIONS BENEFITTING UNDER TARIFF ITEM 69605-1Estimated Duty and Federal Sales Tax Benefits

As presented in Table IIA, it is calculated that some 41,000 institutions and organizations in Canada are eligible for the duty and tax concessions accorded under item 69605-1:

Table IIA: Number of Beneficiaries, Estimated Benefits,
Tariff Item 69605-1, 1977

	No.	Estimated Duty and FST Savings on Imports (\$ Million)
Educational Institutions:		
Universities	69	14.39
Community Colleges	187	1.80
Elementary and secondary schools ^(a)	14,459	1.43
Government Organizations:		
Federal Government agencies	151	8.59
Federal Crown Corporations	25	3.02
Provincial Government Agencies ^(b)	111	2.87
Public Hospitals	1,041	4.65
Religious Organizations	22,000	.60
Public Museums	1,500	.19
Public Libraries	1,000	.09
Other	460	.65
	41,003	38.30

(a) Excludes private schools.

(b) Includes provincial crown corporations.

Source: Tariff Board, Statistics Canada, and Department of National Revenue.

It is noted that not all of the above listed organizations at present make actual use of the provisions of this item. Many organizations are undoubtedly not familiar with the benefits available; many other organizations, such as churches and school boards, would generally

make only small, or infrequent, use of the sort of goods described under 69605-1. Nonetheless, it is apparent that a very large number of organizations are potentially entitled to the duty and tax exemptions provided.

As also shown in Table IIA, duty and FST benefits total some \$38.0 million for goods imported under the item. This assumes that the duty and FST savings are fully passed on to the qualifying institutions and are not retained by importer-distributors. Based on 1977 imports at \$199.2 million, and applying an alternative average duty rate of 9.9 per cent, duty exemptions are placed at \$19.7 million; the added savings via FST exemptions is calculated at \$18.6 million.

The principal beneficiaries under the item are educational institutions followed by various government bodies and by public hospitals. The benefits obtained by the other organizations listed are minor. As indicated in the above table, the duty and FST savings accruing to educational institutions are placed at \$17.6 million or 46 per cent of total estimated benefits. The corresponding figures for government organizations and public hospitals are, respectively, 38 per cent and 12 per cent. The three principal beneficiary groupings as defined here therefore account for almost all (96 per cent) of the total benefit figure given. It is pointed out that universities constitute by a considerable margin the most important single beneficiary category. In contrast, the benefit total calculated for hospitals is much smaller; however, public hospitals do not gain any FST savings via item 69605-1 inasmuch as their purchases are FST exempt in any event.

For the entitled beneficiaries, the existence of item 69605-1 also confers other cost benefits which are not taken into account in Table IIA. The estimates presented here refer to those duty and FST savings associated with imports only. Where goods of a type covered under 69605-1 are bought domestically, rather than imported, by qualified institutions, they are also purchased on a FST exempt basis. This results from "tying in" FST exemptions to certain tariff classifications under Schedule III (Part VII) of the *Excise Tax Act*.⁽¹⁾ There is another implicit benefit as well. The existence of item 69605-1 no doubt depresses to some extent the prices charged by domestic manufacturers, who must compete with products entered duty free. Such lower prices yield a further benefit to qualified institutions when they purchase domestically.

Given the diversity of goods covered by the item, the Board could not with satisfactory validity compile data concerning the purchase of these goods by eligible institutions from domestic sources. The FST benefit on such purchases is consequently not accurately known. The further benefit afforded via lower domestic selling prices is also not measurable with any satisfactory precision. The duty and FST savings

(1) Also see Tariff Board Background No. 2, *"Administration of Tariff Items 69605-1 and 69610-1,"* January 16, 1978.

in Table IIA are thus likely understated considerably. However, even if some acceptable means were found to incorporate these excluded factors, this would not alter the conclusion here that educational institutions, government bodies, and public hospitals, taken together, are clearly the beneficiaries of main importance.

Educational Institutions

Among educational institutions, the universities in Canada are clearly the most important end-users of the goods described under item 69605-1. Universities import the bulk of their requirements for laboratory and scientific instruments/equipment under this item, mostly under applicable clauses 1 and 12. However, universities also make use of a diversity of goods covered by other provisions of the item; they are also major users, for example, of laboratory glassware (clause 2), animals for research (clause 9), laboratory chemicals (clause 11), periodicals (clause 4), and audio-visual materials (clauses 3 and 6).

For the fiscal year 1976/77 the reported budget for Canadian universities⁽¹⁾ was \$2.7 billion, enrollment being 456,070.⁽²⁾ Of this total expenditure somewhat less than \$400 million represents purchases of physical goods/materials; as with all educational institutions, the bulk of the budget is allotted to salaries and wages. Over the 20-year period 1956 to 1976 the annual budget for Canadian universities has increased markedly, from \$70.3 million to the latest reported total of \$2.7 billion. Accompanying this rise in costs has been a shift in the source of university funding. In 1956 government operating grants accounted for about one-third of total funding compared to about two-thirds in 1976/77.

With regard to elementary and secondary schools in Canada, which are supported by local taxation and usually administered by local school boards reported total expenditures were \$9.7 billion⁽³⁾ in fiscal year 1976/77. This current budget figure compares to total expenditures of \$745.0 million in 1956/57.

While the current budget for the elementary and secondary school system is much larger vis-à-vis that for Canadian universities, school boards have, relatively, very little need for much of the sophisticated laboratory/scientific equipment and supplies covered by item 69605-1. With reference to imports under 69605-1 according to end-user,⁽⁴⁾ school boards account for only an estimated 3.1 per cent of such imports in

(1) Includes affiliated colleges.

(2) Full-time equivalent enrollment.

(3) Includes separate schools, penitentiary/reform schools, schools for the blind and deaf and some federally operated schools; excludes private schools.

(4) See chart on page 81, section I.

contrast with universities, with 31.3 per cent. These imports by school boards appear to be mainly related to audio-visual aids. Information available respecting purchasing procedures would also indicate that school boards, when compared to universities, do not have the same need for specialized products/supplies and consequently are able to meet much more of their purchasing requirements through domestic sourcing.

Community colleges also constitute a distinct part of Canadian post-secondary education. These include various colleges of applied arts and technology, vocational and technical institutes and, in Québec, the Colléges d'Enseignement Général et Professionnel (CEGEP'S). The budget for community colleges, as separate from those colleges operated as affiliates of various universities, is reported as \$1.1 billion in fiscal year 1976/77. In that they offer technical training (e.g. in electronics, mechanics, dentistry, and laboratory work), community colleges have consequently a purchasing requirement for technical apparatus and scientific preparations. Compared to elementary and secondary schools they evidently spend a much higher proportion of their budget on such purchases. While their total annual budget is small relative to that for school boards, community colleges rank slightly ahead of the former as end-users under item 69605-1.

Government Organizations

While government bodies are not specifically enumerated in tariff item 69605-1, in the administration of this item all levels of government have been qualified to some extent as eligible organizations. Three classifications are made here: operating departments of the federal government together with associated agencies, councils, Boards, and commissions; federal crown corporations; and operating departments of provincial governments including both associated agencies and provincial crown corporations. Some parts of municipal government have been determined as eligible (e.g., City of Vancouver Archives); however, the use of this item by municipal government is very minor and can be disregarded. As noted, government organizations make substantial use of item 69605-1; in looking at total imports of \$199.2 million under 69605-1 in 1977 it is calculated that government bodies accounted for \$69.2 million of such imports, or 35 per cent. This figure is in addition to, and does not include, imports by museums, libraries, or hospitals which may be government operated. These institutions qualify in their own right as organizations specifically named in the item whether or not they are funded, or operated, by government.

In defining more precisely what constitutes a "government" organization at the federal level, the *Financial Administration Act* is of considerable usefulness. This act sets forth five government categories or schedules: a) departments, b) departmental corporations, c) agency corporations, d) proprietary corporations, e) branches designated as departments. Similar provincial acts exist to define government organizations at the provincial level.

Imports under the item by the federal government (excluding crown corporations) result essentially from purchases by operating departments, either directly or through the Department of Supply and Services which may act as a central purchasing agent. Many operating departments have extensive laboratory or research facilities, e.g: the Department of Agriculture; the Department of Energy, Mines and Resources; the Department of Health and Welfare; and the Department of Communications. Under present procedures for determining eligibility these departments, which are not specifically named, have qualified under the broader or general research provision contained in item 69605-1. Many other operating departments of the federal government have qualified under the general educational provisions of the item in that they conduct training or schooling programmes. In this connection, it should be noted that a department of the federal government is not, as one entity, deemed eligible by National Revenue; only certain sections of departments are considered eligible, that is, where a division or a branch of such departments can be identified as a more or less separate entity undertaking either a research or educational function.

Imports by federal crown corporations accounted for an estimated 6.6% (\$13.1 million) of all imports under 69605-1 in 1977. While a number of crown corporations have from time to time been deemed by National Revenue as qualifying, the 1977 figures basically reflect purchases by only two such corporations, the National Research Council of Canada (NRC) and Atomic Energy of Canada Limited (AECL). Imports under the item by AECL, a "Schedule C" corporation under the *Financial Administration Act*, were comprised almost entirely of radio-active elements, isotopes, and similar compounds admitted as scientific preparations (clause 11). Only the research division of this crown corporation has been deemed eligible; its Commercial Products Division is deemed ineligible. In the case of the NRC, clause 1 referring to scientific apparatus appears to have been of most importance.

The NRC is a major funding organization for the support of scientific research in Canada, its budget being \$196.6 million in 1978. This figure includes the Council's funding programmes in addition to its own operating budget. This beneficiary under item 69605-1 would appear to be significantly disadvantaged should it be excluded from the concessions at present obtained by it. Almost all goods and equipment purchased by the NRC would fall under the item's various provisions (except where made in Canada restrictions apply). Estimates prepared by the NRC indicate that benefits under the item⁽¹⁾ amounted to \$4.2 million in 1976/77, these being equivalent to 20-25 per cent of NRC spending on materials and equipment. Put another way, the loss of now applicable duty and FST savings

(1) Including ancillary tariff item 69610-1.

would probably, in effect, increase the NRC's operating budget (excluding its funding programmes) by 4-5 per cent. It is also noted that the NRC, established as a "Schedule B" Federal Crown Corporation, operates as a largely autonomous, separate entity in which all activities are centered on research. This is in contrast to other research facilities in the federal government which are usually operated as part of a larger department and where research activity may be intermixed with regulatory and policy-making functions. At the provincial level, there are also some research organizations which are established for similar objectives, and which roughly parallel the functions of the NRC. These include the Ontario Research Council, the British Columbia Research Council, the Nova Scotia Research Foundation, the Saskatchewan Research Council, the New Brunswick Research and Productivity Council, the Research Council of Alberta, and the Centre de Recherche Industrielle du Québec.

Provincial governments, including associated agencies as well as provincial crown corporations, accounted in 1977 for an estimated 9.5 per cent of 69605-1 imports. As in the case of the federal government, many departments of provincial governments operate laboratory and research facilities and thus have been deemed as qualified end-users under the item. Examples are: the Alberta Department of Lands and Forests (Forest Entomology and Pathology Laboratories); the Manitoba Department of Mines, Resources and Environment Management (Environmental Research Laboratories); the Ontario Department of Mines (Geological Branch Laboratory). Educational or training facilities, usually run as branches of provincial government departments, have also been determined as eligible. Examples are: the Ontario Department of Agriculture and Food (Staff Development Unit); the Manitoba Department of Health and Welfare (Bureau of Health Education); the Alberta Department of Lands and Forests (Alberta Hunter's Training Programme). Some provincial crown corporations, or divisions thereof, have also qualified, e.g. Quebec Hydro Research Institute, Ontario Hydro Thermal Training Centre.

With reference to Table IIA, it is estimated that, for all government organizations, duty and FST benefits via imports under 69605-1 are some \$15 million. This figure, as explained, is understated in that FST savings, and lower prices, with respect to domestic buying are not incorporated. In the case of provincial governments (excluding agencies thereof or provincial crown corporations) item 69605-1 does not confer any FST benefits. Purchases by provincial governments are FST exempt otherwise, under section 44(2) of the *Excise Tax Act*.⁽¹⁾ Federal

(1) Provinces signatory to the *Federal-Provincial Fiscal Arrangements and Established Programs Financing Act*, 1977 are liable for FST but this would be of no impact in the 1977 year.

government departments and federal and provincial crown corporations are liable for FST payments.

Public Hospitals

Public hospitals in Canada numbered 1,041 in 1976 excluding those hospitals termed "proprietary" by Statistics Canada (83) and also excluding federal hospitals (128). A public hospital is defined under certification by Health and Welfare Canada where it is determined to be a *bona fide* institution for the care of the infirm or incapacitated and where it receives annual financial aid from either the federal government or a provincial government. In 1976 the reported operating expenditures of Canadian hospitals amounted to \$5.52 billion. Most of this operating cost is "shareable" (\$5.25 billion in 1976) with such shareable costs being met by equal contributions by the federal government and the provincial government of jurisdiction.⁽¹⁾

Hospital imports under item 69605-1 appear mainly - about three-quarters - to comprise goods covered under the first provision (clauses 1, 2 and 11). Examples are blood plasma, influenza vaccines, laboratory reagents, prepackaged medical preparations, heart pacemakers, physiological monitoring equipment, laboratory instruments, spectrometers, surgical instruments and blood-testing equipment.

In relation to the number of hospitals in Canada and their substantial annual operating cost, the benefits conferred to them under 69605-1 appear to be quite small. Hospitals are granted, under the *Excise Tax Act*, a blanket FST exemption and therefore the item does not extend to hospitals any cost savings by reason of FST exemptions. Duty savings under this item are calculated at \$4.65 million in 1977 given an average duty at 9.9 per cent applied to imports estimated at \$47.0 million.

The importance of item 69605-1 to hospitals in Canada should also be considered from the standpoint of other provisions in the *Customs Tariff* which similarly cover goods and equipment for hospital use. Tariff items 47600-1 and 47605-1, in particular, encompass much equipment of a type purchased by hospitals; both of these items also provide for duty free entry. The latter item specifically refers to use by public hospitals. In addition, there are upwards of 40 other tariff classifications in the *Customs Tariff* which provide for the duty free entry of medically related goods. Public hospitals might be affected in only a very marginal way should they be excluded from the provisions of 69605-1, or should this item be eliminated completely. Goods now admitted under this item for hospitals would for the most part be accorded non-dutiable status

(1) Pursuant to certain Federal-Provincial fiscal arrangements, as of October, 1977 hospital operating costs in some provinces are the full responsibility of provincial government.

under these other items and, as noted, blanket FST exemptions are in any case granted under the *Excise Tax Act*.

Religious Organizations

Tariff item 69605-1 encompasses "any society or institution incorporated or established solely for religious ...purposes." While churches in Canada are not specifically mentioned here, they would appear to comprise the most important beneficiaries in this classification. However, a large number of other organizations of a religious nature are qualified under the item, including, for example, bible societies, missions, and evangelical associations.

Religious organizations vary notably in size, from small parishes in rural communities to large church organizations in major cities. The latter often undertake associated charitable activities such as operating schools, senior citizen residences and health clinics. The financing of these organizations is done through the donations of congregation members and such contributions are encouraged by the federal government in that they are deductible from taxable income as charitable donations. Such deductions constitute an indirect form of financial assistance provided by the federal government. Similar financial support is extended by local government via exemption from property tax. There is otherwise little direct government funding of religious organizations, the exception being occasional government grants for certain church sponsored community programmes.

Approximately 22,000 religious organizations⁽¹⁾ - mostly individual churches - exist in Canada. Their expenditures budget in 1975 amounted to a reported \$925.5 million.

Religious organizations are minor beneficiaries under item 69605-1. In 1977 imports by them under this item were only an estimated \$2.6 million, representing only 1.3 per cent of total 69605-1 imports. It is pointed out that churches have little use for the scientific equipment, instruments, scientific preparations or apparatus predominantly characterizing imports under the item; most of their imports were of audio-visual materials such as motion picture films, recordings/tapes, and pamphlets and magazines. Some church organs have been admissible under the item, where of a class or kind not made in Canada, either as mechanical equipment or apparatus. In the case of religious organizations it is probable that their main benefit under the item derives from FST exemptions applicable to domestic purchases.

(1) Religious organizations registered as Canadian charitable organizations for purposes of the *Income Tax Act*.

Public Museums

In 1969, together with other changes made to the nomenclature of item 69605-1, "public museum" was added to the specific enumeration of eligible institutions. This was done to explicitly name public museums although they were previously implicitly included by the more general wording of the then existing item.

A museum is best defined as "a permanent collection of things on display, located at a permanent structure or building, open to the public on either a fee-charged or free-admission basis, appropriately licensed by a city/municipality, and recognized by the Museums Association." This definition has been generally accepted by National Revenue. While some museums may be privately-owned, they may nonetheless be eligible under the item if they are maintained for public service.

There are about 1,500 museums operating in Canada (including art galleries and related establishments such as planetaria, botanical gardens and aquaria). These are for the most part supported publicly by federal, provincial or municipal funds. Museums differ considerably in size; while a few, such as the Royal Ontario Museum, have annual budgets of over \$10 million, most are small community museums. Total operating expenditures for Canadian museums and art galleries is reported at \$123.3 million for fiscal year 1976/77. About \$40 million of this total represents expenditure for the purchase of goods and materials. Museums are only very marginally assisted by the concessions granted under 69605-1. Their imports under the item are very small, being estimated at less than \$1.0 million in 1977. Imports principally consist of articles such as tape recordings, films, slides, microfiche cards, and photographic reproductions. A number of other tariff items permitting duty free entry apply to museums and these would appear to be of much more importance. Tariff item 69305-1, for example, allows for the duty free importation of all articles to be placed on exhibit by public museums. Other pertinent duty free items include 69315-1 (antiquities); 69520-1 (original paintings, etc.); and 69900-1 (botanical and entomological specimens, etc.).

The Canadian Museums Association proposed that the following establishments be specifically enumerated under item 69605-1 in addition to public museums: art galleries, exhibition centres, archives, historic houses and sites, zoos, planetaria, botanical gardens, aquaria, and nature centres. At present the term museum is interpreted to include some of these institutions, i.e., art galleries, archives and planetaria. Their more explicit provision would thus not broaden the scope of the item. However, the Association submitted also that museums and related institutions should not be restricted to the exhibition of inanimate objects and accordingly proposed the addition of zoos, aquaria, nature centres and botanical gardens. Such inclusion would extend the coverage of the item as would, also, the inclusion of exhibition centres and historic houses and sites.

Public Libraries

The term "public library" was added to the item in 1969. Although libraries were implicitly qualified, they were specifically listed at that time for greater clarity.

There are approximately 1,000 public libraries in Canada most of which are operated by municipalities and governed by local library boards. The bulk of these municipal libraries, along with other county or regional libraries, are found in small population centres. Financing is mainly from local taxes and provincial grants. Total public library operating expenditures were about \$176 million in 1976, with supplies and materials purchases being some \$26 million. Apart from the above public libraries, there are a large number of libraries - reported at about 7,900 - maintained by universities, colleges and schools. With respect to item 69605-1 these are considered to be part of the educational system and would be eligible as part of a school or university rather than as a public library *per se*.

Almost all goods for the use of public libraries fall under clauses 3, 4, 6 and 7 and comprise such imports as maps, charts, films, pamphlets and magazines, sound and video recordings, and stencils/cards designed for library index systems.

As in the case of public museums, public libraries are given only very marginal assistance via the existence of item 69605-1. They would have very little need for the scientific instruments, apparatus, equipment and scientific preparations which constitute this item's main import categories. In 1977 imports by public libraries under the item amounted to only some \$400,000, or only 0.2 per cent of 69605-1 imports. As against FST or duty savings respecting imports, the more important form of benefit may lie in FST exemption on domestic purchases.

The *Canadian Customs Tariff* provides for several other duty free tariff items applicable to public libraries. All books for *bona fide* libraries are non-dutiable under item 17315-1. Also of pertinence are items 69305-1 (articles for exhibit by libraries); 69625-1 (sound recordings, etc., for libraries); and 69615-1 (moving picture films, etc., of an educational nature).

Other Beneficiaries

Included in Table IIA is a residual category which refers to other beneficiaries under item 69605-1. This grouping consists of a diversity of organizations which have currently been deemed as qualified under the more general provisions of the item. Many of these organizations appear to be of borderline eligibility in that their qualification is questionable given a narrow interpretation of present nomenclature.

The listing below indicates the composition of this residual category of beneficiaries:

- Social service organizations, e.g., Association for Retarded Children, Canadian Red Cross Society, (142)
- Associations and societies engaged in education or operating for the support of education, e.g., Canadian Association for Adult Education, Maritime School of Social Work. (186)
- Research institutes and foundations, e.g., Bedford Institute of Oceanography, Ontario Research Foundation. (46)
- Cultural organizations and societies, e.g., Canadian Amateur Musicians, National Gallery Association. (67)
- Recreational associations, e.g., Boys Clubs of Canada, Central Ontario Soaring Association. (41)

It is noted that many of the above organizations are established as charitable associations; one of the main guidelines employed by Revenue Canada in the administration of the item is whether or not an organization is recognized as a registered charity for the purpose of the *Income Tax Act*.

Even taken together those organizations classified here as being other beneficiaries are only given minor aid via the item. Imports by them in 1977 only amounted to \$2.8 million, or 1.4 per cent of total 69605-1 imports. Imports comprised mostly the type of instruments and equipment covered by clauses 1 and 2 followed by various medical preparations under clause 11. It would accordingly appear that the more important beneficiaries in this remaining category are institutes and foundations which operate laboratory or other research facilities.

The Significance of Duty and Tax Exemptions Under Item 69605-1

As shown in Table IIA, duty and FST benefits respecting imports under item 69605-1 total an estimated \$38.3 million. In order to assess the significance of these savings it is possible to relate them, at least in some cases, to the budgets of the beneficiaries entitled under the item. In Table IIB the reported budget totals for eight institutional groups are summarized, and the duty and FST savings included are compared to total budget expenditures. A further perspective is afforded by looking at these savings in relation to spending on goods only. The comparisons made here have not been attempted in the case of government beneficiaries because of the difficulty of isolating relevant expenditures.

The percentages shown (column G), indicate that the benefits conferred are small when contrasted to the total budgets involved. For example, the budget for elementary and secondary schools in Canada amounted to \$9.7

billion in 1976/77. In this context the duty and FST benefits afforded to schools by item 69605-1, at \$1.43 million, are obviously insignificant. In most cases the calculated duty and FST benefits shown would represent less than 0.20 per cent of total budget spending. Put another way, if the duty and FST benefits foregone by the Federal Treasury are viewed as being subsidies, such subsidies would cover less than 2/10 of 1 per cent of funding needs for most of these institutions included in Table IIB.

The table also seeks to relate the duty and FST savings total to the goods expenditure portion of total budgets. Spending on physical goods/materials is much smaller than total expenditure for these institutions since salary costs predominate. The percentages derived (column H) are of course higher as the duty and tax savings totals calculated here are compared against a smaller base. However, the further percentage figures shown generally support the above conclusion that benefits are small, with the exception of the universities.

The total savings figures shown in Table IIB are probably substantially understated. However, even allowing for a significant upwards adjustment in these percentage figures, it is quite clear that the benefits conferred would still remain minor relative to the size of the total budgets shown. As stated in the Board's Letter of Reference, institutions entitled to use tariff item 69605-1 claim that "narrowing the present exemption would seriously affect the cost and quality of the services they provide." The comparisons provided in Table IIB would appear to offer little support for this position. There are, however, some exceptions. University goods budgets are affected to a greater extent than other institutions, and the research portion of those budgets would be even more sensitive to changes in these benefits. To the extent that university research activity is funded by the federal government, any loss of these benefits can be offset by direct funding. As noted earlier, the benefits obtained by the NRC under the item are estimated to be as much as 4-5 per cent of its operating budget. For other research organizations similar in structure and function to the NRC, the concessions afforded by the item are likely to be of equal importance. In the case of the NRC the loss of any benefits can be offset by budgetary action by the federal government at no added cost to itself.

Table IIB: Duty and Federal Sales Tax Savings Under Item 69605-1
in Relation to Total Budgets, Selected Beneficiaries, 1977

A	B	C	D	E	F	G	H
Beneficiary	Total (a) Budget	Spending on Goods	Imports Under 69605-1	Duty Savings	FST Savings on Imports	Total Savings	Total Savings as % of Goods Spending
			- \$million -				%
Public hospitals	5,520	1,510	47.0	4.65	n/a	4.65	0.08
Universities (b)	2,702	370	62.3	6.17	8.22	14.39	0.53
Community colleges	1,070	170	7.8	0.77	1.03	1.80	0.17
Elem. & Second. Schools (c)	9,695	1,500	6.2	0.61	0.82	1.43	0.02
Public museums	123	40	0.8	0.08	0.11	0.19	0.15
Public libraries	176	26	0.4	0.04	0.05	0.09	0.05
Religious organizations	925	180	2.6	0.26	0.34	0.60	0.06
							0.33

(a) Based on latest available financial information, usually for 1977 or for 1976/77 fiscal year.
(b) Includes affiliated colleges.

(c) Public schools supported by local taxation or provincial grants including separate schools
and schools operated by the federal government; excludes private schools.

Source: Tariff Board

SECTION III: THE MANUFACTURE OF SCIENTIFIC AND PROFESSIONAL GOODS IN CANADA

Production and Domestic Markets

A considerable diversity of commodities is admitted under tariff item 69605-1 since the coverage of this tariff classification ranges from living animals and plants, to works of art, and to highly sophisticated scientific instrumentation. If scientific preparations are excluded, along with most of the goods described under clauses 3 to 10, it is evident, however, that over three-quarters of the item's imports consist of manufactured articles of an equipment nature. Most of these are high-technology products and instruments associated with laboratory or scientific use.

It is difficult to identify an "industry," or any homogeneous group of domestic producers, which relates to, or is affected principally by, the duty free concessions of item 69605-1 given its uniquely broad coverage. Nonetheless, in seeking to compare the sort of goods entered under this item to corresponding manufacturing activity in Canada it appears that the item corresponds best to the "Scientific and Professional Equipment" industries as defined by Statistics Canada. A more specific comparison would be to "Instrument and Related Products Manufacturers" (S.I.C. 3911) which is a sub-grouping of the Scientific and Professional Equipment industries. It is cautioned that this latter relationship is a loose one as imports under 69605-1 encompass a range of other S.I.C. industry groupings as well as products of some non-manufacturing activities. However, statistics for S.I.C. 3911 serve to provide some perspective. Shipments of own manufacture for this industry totalled, for example, \$473.1 million in 1976 with reported employment at 12,227. Ontario accounts for a high proportion of production, about 85 per cent. This statistic, as well as other information, certainly indicates that, for the high-technology products described under 69605-1, comparable Canadian production takes place predominantly in Ontario.

Further background information is also provided in Table IIIA. This sets forth principal statistics for the 20 major industry groupings included in Canada's manufacturing sector and relates these groupings to the type of imports entered under the item. It is pointed out that some 60 per cent (see column G) of imports under this item compare to those producers classified under "miscellaneous manufacturing." The corresponding figure for instruments and related products manufacturers is 51.9 per cent. The main impact of the item would therefore appear to fall, more particularly, on this latter manufacturing activity.

Item 69605-1 might initially appear to be of some significance for the domestic machinery industry, and for producers of chemical and chemical products, electrical products and non-metallic minerals. With reference to the machinery industry, for example, some \$31 million of machines and mechanical equipment were admitted duty free under this item in 1975. However, imports of machinery entered under 69605-1 accounted for only 0.6 per cent of all machinery imports. The other percentage figures tabulated in column H would indicate, similarly, that for most industry

Table IIIA: Shipments, Exports and Imports, Related to Tariff Item 69605-1,
Manufacturing Sector, Canada, 1975

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Shipments	Exports	Imports	Apparent Domestic Market	Imports as % of Market	Imports Under T.I. 69605-1	% Distribution	69605-1 Imports as % of Total Imports
		- \$ million -			%	\$'000	%	%
All Manufacturing:	88,460	20,959	27,901	95,402	29.2	187,868	99.7	0.7
Food & Beverages	16,492	1,381	1,407	16,519	8.5	206	0.1	*
Tobacco	832	4	14	841	1.6	-	-	-
Rubber & plastics	1,956	131	607	2,431	25.0	2,024	1.1	0.3
Leather	619	40	284	863	32.9	4	*	*
Textiles	2,439	115	824	3,147	26.2	10	*	*
Knitting mills	624	9	277	892	31.0	-	-	-
Clothing	2,307	101	247	2,453	10.1	1	*	*
Wood	3,803	1,250	365	2,918	12.5	3,777	2.0	1.0
Furniture & fixtures	1,364	57	154	1,461	10.5	175	0.1	0.1
Paper & allied ind.	7,132	3,864	385	3,653	10.5	549	0.3	0.1
Printing	2,897	67	453	3,283	13.8	1,291	0.7	0.3
Primary metal	6,682	2,588	1,321	5,415	24.3	71	*	*
Metal fabrication	6,217	324	1,076	6,968	15.4	259	0.1	*
Machinery ind.	3,732	1,714	5,317	7,334	72.5	31,144	16.6	0.6
Transportation Eqpt.	11,193	7,092	9,147	13,248	69.0	544	0.3	*
Electrical products	4,599	607	1,805	5,798	31.1	11,438	6.1	0.6
Non-metallic minerals	2,569	169	457	2,858	16.0	8,092	4.3	1.8
Petroleum & coal prod.	5,953	338	275	5,891	4.7	8	*	*
Chemical & chemical prod.	5,107	775	1,717	6,049	28.3	14,198	7.6	0.8
Miscellaneous mfg.	1,943	334	1,769	3,379	52.4	114,075	60.7	6.4
Scientific/Prof. eqpt.	632	232	1,010	1,410	71.6	111,968	59.6	11.1
(Insts. & related prod.)	414	214	792	992	79.8	97,859	52.1	12.4

Source: Department of Industry, Trade and Commerce; Statistics Canada.

groups, imports admitted under 69605-1 are of negligible consequence, accounting for a very minor share of imports. On the other hand, the corresponding figure for instruments and related products manufactures, at 12.4 per cent, is again an exception. For these manufacturers, the duty free concessions conferred under item 69605-1 would evidently be a significant factor in their competitive position.

Table IIIA also portrays the extent of import competition according to industry groups. For all manufacturing, imports averaged an estimated 29.2 per cent of the domestic market in 1975. The comparable percentage for miscellaneous manufacturing is much higher, at 52.4 per cent, and is unusually high, at 79.8 per cent, in the case of instruments and related products. This last statistic indicates that for the scientific and laboratory instrumentation or equipment typically entered under 69605-1, there is a pronounced degree of import penetration in the Canadian home market.

With regard to the Canadian manufacture of scientific and laboratory equipment a further perspective is offered by the tabulation below. The figures shown include the eight main product lines involved and cover production by all S.I.C. industry groupings, not shipments by S.I.C. 3911 alone:

<u>Shipments Category</u>	<u>Value (1975)</u>
	\$'000
Laboratory instruments & Apparatus (excl. measuring & optical)	2,137
Optical Apparatus & Instruments; Misc. instruments, apparatus & accessories	25,439
Electrical & electronic measuring & testing equipment	28,648
Medical & related instruments & apparatus (excl. X-ray equip- ment).....	24,547
Other measuring & measuring controlling instruments	140,022
Engineering & geophysical instruments & apparatus	3,429
Flow & liquid level instruments & apparatus	10,139
Thermostats	<u>12,768</u>
Total Shipments	247,125

It should be noted that the figure shown above for laboratory instruments and apparatus, at only \$2.1 million, is probably very greatly understated. Much laboratory equipment is no doubt covered under other shipments classifications (e.g., as "other measuring and measuring controlling instruments" or as "miscellaneous instruments"). Nonetheless, Canadian manufacture of laboratory instruments *per se* appears to be quite small.

Item 69605-1, for the eight product lines enumerated above, is of varying impact. In the case of laboratory instruments and apparatus there is, for example, a major impact. It is estimated that imports under this

classification were some \$71 million in 1975; of these, \$46 million were under item 69605-1, or nearly 65 per cent. The corresponding statistic for optical apparatus, etc. (22 per cent) and electrical and electric measuring/testing equipment (19 per cent) also suggests that Canadian manufacturers in these lines are adversely affected by item 69605-1. On the other hand, for engineering/geophysical equipment or for flow and liquid level instruments and thermostats, duty-free entry under the item is of negligible significance.

The Board did not seek to develop production or domestic sales estimates for all the kinds of products and commodities covered by item 69605-1. This appears to be, in any event, impossible with any degree of accuracy. It is pointed out that, in fact, a substantial number of different markets are involved given the broadness of the tariff nomenclature. Moreover, a further complicating factor is that these separate markets divide further into a commercial component and an "institutional" component. In viewing the market for high-technology instrumentation, for example, the commercial segment appears to be by far the larger one. This commercial segment would embrace instrumentation for industrial use (mainly for process control) and equipment both for industrial quality control and for research/development, as well as instruments/equipment used by many commercial medical testing laboratories. The non-commercial or "institutional" market, as defined here, refers to sales to those organizations qualified under 69605-1, mainly public institutions such as universities, schools, and hospitals. While this generally is the smaller market segment, it is noted that federal government departments and agencies operate a large number of laboratories in Canada, as do hospitals, universities, and provincial governments. For laboratory equipment the institutional segment may thus be the one of most importance. The institutional side of the market is also probably the dominant one in the case of laboratory reagents and certain types of medical supplies.

The Board deemed only certain markets, and only certain commodity groupings, to be of principal concern. Two considerations are advanced as the basis for this determination. Firstly, many of the imports admitted under 69605-1 would be granted duty-free status in any case, irrespective of the existence of this item. Hospital and medical equipment, for example, is in large part duty-exempt under a number of other tariff classifications; further examples are vaccines, blood fractions, most living animals, radioactive isotopes, and audio-visual materials of an educational/scientific nature.⁽¹⁾ Secondly, many imports under 69605-1 must be viewed as being basically non-competitive with existing Canadian production. This refers to goods entered under clauses 12 and 13, both of which apply only if like goods are "not made" in Canada.

In looking at imports of \$200 million under item 69605-1 in 1977, the Board felt that the majority of such imports - some \$105 million - were of relatively minor concern. This total comprises those goods, as explained

(1) See Table IVC.

above, which would be admitted duty-exempt in any event or which would be essentially non-competitive given the protection afforded via the "not made in Canada" provisos. The main significance for Canadian manufacturing appears to lie with the remaining \$95 million of imports. This latter total covers scientific equipment as described under clause 1, associated parts for such equipment under clause 14, and laboratory glassware and most scientific preparations classified, respectively, under clauses 2 and 11.

Corresponding to this import total of \$95 million, the production of like goods in Canada is estimated at roughly \$60 million. However, a substantial volume of this is apparently exported and a further significant share consists of commercial sales. Institutional sales in the home market are estimated at \$15-20 million. This last estimate therefore represents, for scientific and laboratory equipment, laboratory glassware and reagents, sales of domestic production in the home market to qualified institutions. For these goods, identified as those of principal concern, the domestic market appears to be in the order of \$110-\$115 million comprised of imports at roughly \$95 million and sales of Canadian manufacture at \$15-20 million. Again there is evidently a considerable degree of import penetration, with imports supplying for the preponderance - about 85 per cent - of the domestic market. For laboratory instruments and sophisticated scientific equipment, there is only a minor Canadian presence. Interviews with hospitals and universities would suggest, for example, that only 10 per cent or less of their laboratory/scientific instrument purchases were of Canadian origin. In the case of laboratory chemicals, domestic producers are in only a slightly better competitive position; the 1977 institutional market for laboratory reagents is estimated at \$16-18 million with domestic producers accounting for sales of \$2-3 million.

From the Board's own survey and from other general information, Table IIIB provides a listing of the known Canadian manufacturers which are considered to be producers of commodities similar to those described under item 69605-1. Since the Board's survey could not practically cover all manufacturers with a possible involvement, the listing provided should be regarded as representative only. Some of the companies enumerated may sell only a small share of their production to institutional users. Others may be of questionable inclusion, inasmuch as classification to item 69605-1, vis-à-vis other items, is often uncertain.

It is apparent that many of these manufacturers are dependent primarily on the domestic market. Moreover, they sell mostly to the non-institutional market. Often producing goods with established technology and standardized production procedures, where scale is particularly important, they are unable to compete with foreign producers with much larger, more protected, domestic markets, either abroad or in the duty-free institutional market. These domestic producers would probably gain considerably from restricting duty-free access under 69605-1.

There are, on the other hand, also a number of Canadian manufacturers who are active in export markets. Two of the largest manufacturers, Picker X-Ray Manufacturing Ltd., and Atomic Energy of Canada Ltd., export, in fact, the bulk of their production, and account for most of the \$20 - \$30 million of the relevant goods exported. For manufacturers already competitive in foreign markets, and the 69605-1 institutional market, this item does not affect production of these goods. While a reduction of its scope would not thus benefit current production, it would be beneficial to new product development.

Implications for Job Creation

It is most difficult to measure or to quantify the impact which the current duty concessions under 69605-1 might have on domestic manufacturing and on employment in this sector. The item essentially results in a loss of the tariff protection normally applicable, which, for secondary manufacturing is 15 or 17½ per cent⁽¹⁾ in most cases. For competing goods produced in Canada this diminished tariff protection has implications for prices, production and employment. Domestic selling prices are no doubt forced down where the Canadian manufacturer must confront competing imports entered free of duty. The provisions of 69605-1 would also appear to depress domestic output, for certain goods, to levels lower than those which would otherwise prevail, with an attendant loss of employment opportunities. A major question, of course, is whether or not these price, output and employment effects are significant. More particularly, the question is whether the costs implied for the Canadian manufacturing sector are justified by the public interest benefits afforded to certain institutional end-users.

The possible impact on manufacturing is probably best approached conceptually by considering what stimulus, if any, to production and employment might be anticipated from the elimination of 69605-1 in its entirety. At issue is the extent to which import replacement might occur. The Canadian Manufacturer's Association submitted that, under 69605-1, "current imports create employment directly for at least 4,000 persons outside of Canada. Repatriation of a considerable proportion of these jobs would seem to be a most worthy objective."⁽²⁾ The Association of Universities envisaged only

-
- (1) The Board has calculated that, in the absence of item 69605-1, an average rate of slightly under 10 per cent would apply. This figure takes into account those products which would be granted a non-dutiable status under other tariff classifications (see section IV).
- (2) Canadian Manufacturers Association, *Submission by the Canadian Manufacturers' Association to the Tariff Board on Tariff Board Reference No. 155*, March 1978, p. 3.

minor import replacement opportunities, contending that "it is unlikely that more than 10 per cent of the present direct and indirect imports made under tariff item 69605-1 could be substituted by Canadian manufacture." (1) It is pointed out that a 10 per cent import substitution factor is not inconsequential. Given imports of \$200 million this equates to additional production at \$20 million and probably to some 900 added jobs in manufacturing.

On the other hand, increased tariff protection does not necessarily call forth a greater output of goods. A number of considerations suggest that import substitution might be negligible. In the first place, in the field of laboratory and other scientific instruments and equipment, domestic manufacturing may not have the requisite technological ability. Even where this is available, there is, secondly, the problem of costs. In the case of highly specialized products, the Canadian market is often very small; where sales volume is limited, production may not be viable given high capital and developmental overheads per unit. Finally, it is noted that sophisticated scientific equipment, often expensive, may not be marketed on the basis of price but on the manufacturer's reputation and ability to supply technical after-sales support and servicing. In this regard the smaller and unknown Canadian manufacturer is confronted with a major obstacle in seeking to develop sales in competition with established U.S. firms. The application of a tariff might do little to overcome this sort of disadvantage.

While recognizing limiting factors, it is the Board's view that the elimination of item 69605-1 would conceivably offer scope for import substitution of perhaps \$25 to \$35 million. This estimate is derived by identifying the major product categories imported under the item, by assessing the existing extent, and potential capability, of domestic manufacturing for such product lines, and by projecting possible market shares. At the lower end of the range, an increment to domestic production of \$25 million probably translates into 1,100 added job positions as follows: 500 directly established production jobs if based on a present ratio of approximately one worker per \$50,000 of shipments; 500 further production jobs created indirectly through the employment multiplier; (2) one hundred related support positions in administration/management. A production increment of \$35 million would, on a similar basis, appear to translate into 1,550 new jobs.

-
- (1) Association of Universities and Colleges of Canada, *Submission to the Tariff Board regarding Reference No. 155*, p. 28.
- (2) Each net new job position provided for directly is assumed to lead to one added job position created indirectly. The 1:1 employment multiplier used here is believed to be conservative inasmuch as higher multiples (2:1 or above) are frequently used in economic forecasting.

The projections put forth here are, of course, speculative. Nonetheless, in evaluating possible alternatives the Board felt it necessary to make some attempt at quantification. It was also prepared to accept that the elimination of item 69605-1, or a substantial reduction in its coverage, would yield some favourable stimulus to employment in the Canadian manufacturing sector.

Table IIIB: A Representative Selection of Canadian Manufacturers
Producing Goods Falling Within Tariff Item 69605-1

<u>Manufacturer</u>	<u>Location</u>	<u>Principal Commodities</u>
Anachemia Chemicals Ltd.	Ville St. Pierre, Que.	Chemicals
Atomic Energy of Canada Ltd.	Ottawa, Ont.	Radioactive/Isotopes & Compounds; Sterilizers
Bach-Simpson Ltd.	London, Ont.	Photometers; Blood Analyzers; Voltmeters
Barringer Research Ltd.	London, Ont.	Geophysical Instruments
B.D.H. Chemicals (Canada) Ltd.	Toronto, Ont.	Diagnostic Kits; Inorganic/Organic Chemicals; Membrane Filters/Apparatus; Chromatographic Plates
Bell & Howell (Canada) Ltd.	Downsview, Ont.	Silent Filmstrip Projectors
Bristol Aerospace Ltd.	Winnipeg, Man.	Telemetry Systems; Communications Equipment
Brunswick Lab Ltd.	Sussex, N.B.	Laboratory Furniture
CAE Electronics Ltd.	Montreal, Que.	Aircraft Flight Simulators
Caledon Laboratories Ltd.	Georgetown, Ont.	Organic Solvents & Reagent Acids
Califone Industries Ltd.	Vancouver, B.C.	Cassette Recorder
Caltex Laboratories Ltd.	Edmonton, Alta.	Prep. used for diagnostic Purposes
Canadian Cabinets Co. Ltd.	Montreal, Que.	Control atmosphere units
Canadian Industries Ltd.	Montreal, Que.	C.P. Reagents
Canadian Helium Ltd.	Toronto, Ont.	Rare Gases
Canadian Liquid Air Ltd.	Sherbrooke, Que.	Rare Gases
Canadian Red Cross	Toronto, Ont.	Blood Plasma & Fractions
Canadian Research Institute	Don Mills, Ont.	Laboratory Equipment
Connaught Laboratories Ltd.	Willowdale, Ont.	Chemicals
Controlled Environments Ltd.	Winnipeg, Man.	Compressors; Condensing Units; Evaporator/Cooling Coils
Coulter Electronics of Canada Ltd.	Mississauga, Ont.	Diagnostic Reagents

Table IIIB (cont.)

<u>Manufacturer</u>	<u>Location</u>	<u>Principal Commodities</u>
Dominion Biologicals	Truro, N.S.	Bacteriological Products; Biological Products
E.D.A. Electronics Ltd.	Ottawa, Ont.	Geophysical Instruments
Eldorado Nuclear Ltd.	Ottawa, Ont.	Uranium Ore Concentrates
Exporanium Corp. of Canada	Downsview, Ont.	Geophysical Instruments
Federal Pioneer Ltd.	Toronto, Ont.	Intensive Care Equipment
Foster Refrigeration of Canada Ltd.	Drummondville, Que.	Biological and Laboratory Refrigerators & Freezers
Gen-Tec Inc.	Ste. Foy, Que.	TEA Lasers; Joulemeters
Geonics Ltd.	Toronto, Ont.	Geophysical Instruments
Gestalt International Ltd.	Vancouver, B.C.	Cartography Systems
Grandma Food Products Ltd.	Montreal, Que.	Enzymes
Graphic Controls Canada Ltd.	Gananoque, Ont.	Medical Charts, ECG Electrodes
Guildline Instruments Ltd.	Smiths Falls, Ont.	Precision Electrical Measuring Instr., Oceanographic Instr.;
		Standards of Resistance
		Cardiogram Machines; Pulse Meters; Medical/Electronic Instrumentation
Harco Electronics Ltd.	Winnipeg, Man.	Hematological Drug Preparations
Hoffmann-Laroche Ltd.	Vaudreuil, Que.	Electronic & Electrical Teach- ing Material
H.O.P. Consulab Inc.	Quebec, Que.	Laboratory Glassware: Washers and Dryers for Medical and Surgical Instruments
Hoplab Inc.	Quebec, Que.	Refrigerated rooms; Atmospheric Control Equipment
Hotpack (Canada) Ltd.	Waterloo, Ont.	Hospital Furniture
Imperial Surgical Co.	Toronto, Ont.	X-Ray Fluorescence Analysers
Inax Instruments Ltd.	Ottawa, Ont.	Vaccines; Bacteriological and Biological Products
Institute Armand-Frappier	Laval Des Rapids, Que.	Gas Line Analysers for Hospital Computer Based Systems
H.T. Instruments Ltd.	Bolton, Ont.	
Johnson Controls Ltd.	Toronto, Ont.	

Table IIIB (cont.)

<u>Manufacturer</u>	<u>Location</u>	<u>Principal Commodities</u>
O.H. Johns Glass Co. Ltd.	Toronto, Ont.	Laboratory and Scientific Glassware
George Kelk Ltd.	Don Mills, Ont.	Electro-Optical; Electro-Mechanical and Electronic Equipment
Kendall Co.	Toronto, Ont.	Hosp. Dressings, Urology Prods.
Kent Laboratories Ltd.	Vancouver, B.C.	Immunodiagnosics; Scintillation Chemicals
La Belle Industries (Canada) Ltd.	Don Mills, Ont.	Audio-Visual Equip. and Related Software.
Lab-Volt (Quebec) Ltd.	Ste-Foy, Que.	Educational Electronic Equipment
Litton Systems (Canada) Ltd.	Rexdale, Ont.	Computer Controlled Training Simulators; Airborne Inertial Navigation & Special Purpose Computer Systems
Lumonics Research Ltd.	Kanata, Ont.	TEA Lasers Using Carbon Dioxide; Hydrogen Fluoride
Luxo Lamp (Canada) Ltd.	Ste. Therese De Blainville, Que.	Hospital Lighting Equipment
Madsen Electronics (Canada) Ltd.	Oakville, Ont.	Medical Diagnostic Instruments
Maknur Laboratories, Ltd.	Ottawa, Ont.	Bacteriological Products, Enzymes-Medical; Diagnostic Reagents; Chlorine Testing Equipment
Merck, Sharpe & Dohme Canada Ltd.	Kirkland, Que.	Biological & Pharmaceutical Preparations; Stable Isotopes & Compounds
Milltronics Ltd.	Peterborough, Ont.	Electronic Control Systems
National Electrolab Ltd.	Vancouver, B.C.	Electrical & Electronic Inst.
National Silicates Ltd.	Toronto, Ont.	Silica Gel
Northern Telecom Ltd.	Montreal, Que.	Communications Satellite Systems; Telecommunications Equipment

Table IIIB (concl.)

<u>Manufacturer</u>	<u>Location</u>	<u>Principal Commodities</u>
Owl Instruments Ltd.	Downsview, Ont.	Medical Electronic Equip.; Heart Rate Meters; Surgical Probes
Payton Associated Ltd.	Scarborough, Ont.	Aggregation Modules, Conduc- tivity Controls
Philips Electronics Ltd.	Scarborough, Ont.	Radar Systems; Telecommunica- tions Equipment; Data Systems
Physico-Medical Systems Corp.	Montreal, Que.	Medical Equip. for Rehabili- tation of Paraplegics: Urolo- gical Instr.
Picker X-Ray Mfg. Ltd.	Bramalea, Ont.	X-Ray Apparatus and Equipment
Radioimmunoassay Inc.	Agincourt, Ont.	Radioimmunoassay Kits
Radionics Ltd.	Montreal, Que.	Digital Echoencephalography
Raylo Chemicals Ltd.	Edmonton, Alta.	Glycerine & Derivatives
Sangamo Co. Ltd.	Toronto, Ont.	Environmental & Meteorological Instr.
Scintrex Ltd.	Concord, Ont.	Geophysical & Geochemical Instr.
Select-O-Sonore Canada Ltee.	Quebec, Que.	Language Laboratory Systems
Semco Instruments Co. Ltd.	Ottawa, Ont.	Scanning Electron Microscopes and Accessories
Sodev Inc.	Sherbrooke, Que.	Control Valve For Vacuum Systems
Spar Aerospace Products Ltd.	Toronto, Ont.	Communications Systems & Equip.
Stark Instruments Ltd.	Ajax, Ont.	Test Equip. for Schools, Meters, Tube Testers
J.R. Stephenson Ltd.	Winnipeg, Man.	Electrical Techlab Equipment for Schools
Unitron Industries Ltd.	Kitchener, Ont.	Hearing Aids
Weck Surgical Co.	Weston, Ont.	Surgical Instruments

Source: Tariff Board Survey, Department of Industry, Trade and Commerce, and 1977 Canadian Trade Index.

SECTION IV: TARIFF FACTORS

The Relationship of Tariff Item 69605-1 to Other Items

To situate item 69605-1 with respect to other classifications in the *Customs Tariff*, it is important to relate it to alternative items, both those bearing a rate of duty and those providing for free entry. Given the wide range of goods described by 69605-1 it is probable that almost all of the 3,000 or so classifications in the *Customs Tariff* could apply at least to some extent. However, certain items, although numerous, can be identified as being of more immediate relevance; these are enumerated in Table IVA.

With reference, first, to alternative dutiable items, some 185 such tariff classifications are listed in Table IVA with M.F.N. rates of duty ranging from 5 p.c. to 27½ p.c. These are the dutiable tariff items which are, in effect, replaced by 69605-1 or, put another way, these are the dutiable alternatives which would apply should 69605-1 be eliminated entirely. These are also the dutiable classifications which pertain to commercial end-users, i.e., to goods described under 69605-1 but imported by non-qualified users. Among these some 185 dutiable tariff items it is further possible to separate out those of principal importance; Table IVB, which provides nomenclature descriptions and applicable duty rates, gives the 20 main dutiable alternatives for goods now entered under 69605-1.

With respect to Table IVB, item 42700-1 ("machines, n.o.p.") is of particular significance. It appears that almost all mechanical equipment" admitted under 69605-1 (clause 13) could otherwise be classified to 42700-1 together, probably, with a substantial portion of "scientific" apparatus/instruments (clause 1) and "other" instruments/apparatus (clause 12). Nominally, 42700-1 carries a 15 p.c. rate of duty; however, a duty remissions programme attaches to this item which, as discussed subsequently, in effect confers free entry to machines deemed to be "not available" from Canadian production. Tariff items 44524-1 (electrical apparatus), 44532-1 (electrical instruments) and 46200-1 (instruments for observation, etc.) may also be singled out as being of major importance. Most chemicals admitted under 69605-1 (as "scientific preparations") would otherwise be dutiable under classifications in group 12 of the *Customs Tariff* with 93819-1 likely being predominant.

In the *Customs Tariff* there are a large number of items providing for duty-free entry; many of these cover the same type of goods described in 69605-1, or pertain to a similar end-use, or specify the same institutions mentioned in 69605-1. There exists therefore a rather considerable overlap between the exemptions granted under 69605-1 and similar concessions provided by these other duty-free items. With reference again to

Table IVA, this table lists some 70 duty-free items as being alternatives to 69605-1.

As an extract from Table IVA, shown in Table IVC are the more pertinent examples where duty-free entry may be duplicated. It is pointed out that the nomenclature of item 69615-1 covers moving picture films, slides, sound recordings, video tape recordings, models, charts, and maps, goods almost identical to those enumerated in clauses 3, 6 and 8 of 69605-1. However, 69615-1 requires a possibly cumbersome certification procedure not necessary for importation under 69605-1. As another example, while much equipment entered under 69605-1 is for hospital use, alternative duty-free items 47600-1 and 47605-1 together cover a range of medically-related articles. Item 20605-1 duplicates duty exemptions for many medical preparations entered under clause 11 of 69605-1. Also, animals for research under 69605-1 (clause 9) as well as living plants, seeds, etc. (clause 10) are largely given M.F.N. free entry under alternative classifications, e.g., items 505-1, 7301-1 to 7312-1, 8101-1 to 8240-1. With respect to laboratory glassware under clause 2 of 69605-1, to some extent duty-free entry is also provided via 20630-1, given at present an apparently broad interpretation of this latter item. Glassware for laboratory and scientific use is a recent addition to 69605-1, being introduced as a result of recommendations made pursuant to Tariff Board Reference No. 134. Prior to 1969 such glassware, restricted to hospital use, was included in item 47605-1.

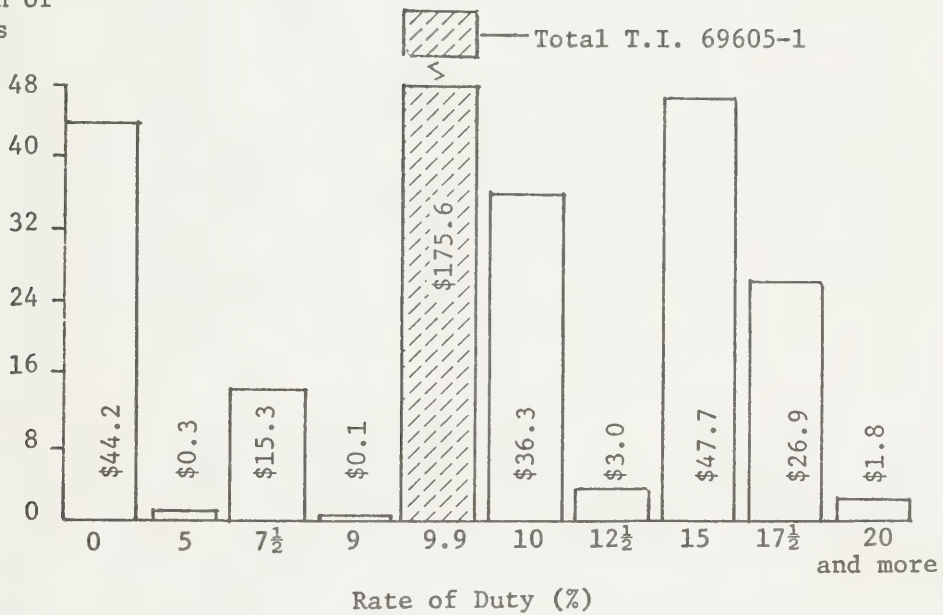
Of especial importance is the duty remissions programme administered under 42700-1 respecting machines. As mentioned above, much of the mechanical equipment, instruments and apparatus now covered under 69605-1 could apparently be otherwise classified to 42700-1. Although this item nominally bears a M.F.N. rate of 15 p.c., the duty exemption provided for machines not available from domestic production would give considerable scope for free entry as an alternative to 69605-1.

In view of the remissions programme under 42700-1, and considering the numerous other existing duty-free classifications, it is evident, in sum, that even were this item struck from the *Customs Tariff*, a substantial portion of the goods now covered by it would still continue to enjoy a non-dutiable status.

The duty exemptions granted by item 69605-1 result in a revenue loss to the federal treasury and have implications as well for the domestic manufacturing sector. In its analysis of these effects, the Board sought to establish, assuming the absence of 69605-1 from the *Customs Tariff*, the average duty rate which would otherwise apply on those imports now covered by the item. Based on 1976 data, and as illustrated in the accompanying chart, this otherwise applicable duty average is calculated at 9.9 p.c.

Distribution of Imports Under Tariff Item
69605-1 by Rate of Duty(a), 1976

Value of
Imports in
Million of
Dollars



(a) Rate of duty (M.F.N.) if tariff item 69605-1 did not exist.

Source: Tariff Board

This composite average takes into account both those imports under 69605-1 which would continue to obtain duty exemptions under other free items and those imports which would become dutiable. Of total imports in 1976 (\$175.6 million) it is estimated that 25.2 per cent (\$44.2 million) would remain duty-free with the remainder (\$131.4 million) attracting a duty ranging from 5 to 27½ p.c. With reference to the \$44.2 million, this figure would largely comprise machines and related equipment classifiable to 42700-1 and being, in effect, duty-exempt via the remission programme.⁽¹⁾ For dutiable products, the average rate is calculated at 13.2 p.c. While the most frequently applied rate, as shown, would be 15 p.c., some imports would nonetheless attract a much lower duty, 7½ p.c., in view of the prevailing GATT rate under alternative item 44532-1 (electrical instruments and apparatus of precision).

The Concept of "Class or Kind Made in Canada"

Two of the more important clauses of item 69605-1 contain the limiting provision "of a class or kind not made in Canada", a restricting condition found in many classifications in the *Customs Tariff*. This made in Canada concept, its implications and its manner of application constitutes an issue of notable importance in contemplating possible changes to the item.

Governing legislation is as follows:

For the purpose of this Act goods shall not be deemed to be of a class or kind made or produced in Canada unless so made or produced in substantial quantities; and the Governor in Council may provide that such quantities, to be substantial, shall be sufficient to supply a certain percentage of the normal Canadian consumption and may fix such percentages.

(Customs Tariff Act, Section 6)

(1) Most of the various machines and related equipment now under 69605-1 appear to be technically sophisticated and specialized and would largely, under the provisions of 42700-1, qualify for duty remission. The working assumption employed here is that two-thirds of such machines/equipment would be deemed "not available from production in Canada" and therefore duty exempt.

Articles shall not be deemed to be of a class or kind made or produced in Canada unless a quantity sufficient to supply ten per centum of the normal Canadian consumption of such article is so made or produced.

(Order in Council P.C. 1618, July 2, 1936)

When applied to a category of imported goods, the essence of the made in Canada approach is to permit duty-free entry on those not obtainable domestically from Canadian production, to avoid an unnecessary tax on users or consumers; at the same time, for those deemed to be made in Canada, tariff protection for domestic manufacturers is maintained. As set forth above, the determinant governing "made" or "not made" status is whether Canadian production satisfies 10 per cent of normal Canadian consumption, this latter being the quantity produced in Canada plus the quantity imported. Made in Canada rulings are determined by the Department of National Revenue, Customs and Excise, and usually require detailed procedures of data collection, analysis of market shares and general administration. Rulings, and amendments thereto, are published in the Canada Gazette.

The distinction, if any, between the meaning of the word "class" vis-à-vis "kind" is far from clear. As administered by National Revenue, it is generally accepted that "class" is a broader term subsuming several smaller or more specific "kinds"; in many cases, however, these words are synonymous.

The use of the made in Canada approach has been validly criticized for certain implications embodied in its application. For existing producers, those with the required 10 per cent market share, this approach provides tariff protection; at the same time for small producers or newly-formed enterprises this tariff protection is not available. If it is argued that the main justification for a tariff is to assist or protect developing or "infant" industries, the made in Canada concept is, in fact, contradictory; the effect of this approach is to withhold tariff protection in the initial and most critical period of an enterprise's growth and only to grant protection when an enterprise is established and when tariff protection is perhaps not needed.

Similar in nature to the made in Canada approach is the concept of "available from production in Canada", of recent introduction in the case of tariff items 42700-1 and 41100-1. While goods entered under both these items are dutiable, such duties can be remitted on the following basis:

Except that in the case of importation into Canada of any goods enumerated in this item, the Governor in Council on the recommendation of the Minister of Industry, Trade and Commerce may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified in this item applicable to the goods and subsections 17(2), (3), (4), (5) and (8) of the Financial Administration Act apply in the case of a remission granted under this provision.

While the Department of National Revenue initially determines the classification of the goods in question, under either 42700-1 or 41100-1, in contrast to made or not made rulings, subsequent decisions as to availability are made by the Department of Industry, Trade and Commerce. According to the guidelines issued by this department, goods (machinery) are "considered to be available from production in Canada if at least one manufacturer has proven capability to manufacture machinery which, insofar as its range of physical qualities, operational characteristics and efficiency are concerned, is reasonably equivalent to the machinery for which remission is sought". Proven capability is deemed existing in Canada where: "(a) the full range of technical and physical capabilities necessary for production of the machinery exists within the operational framework of at least one manufacturer; and (b) such facilities have in fact produced machinery demonstrating competence reasonably equivalent to that required to produce the machinery for which remission is sought".

As suggested by the above, the determination of availability rests on an evaluation of technological factors and requires considerable familiarity with Canadian industry. Administration would appear to be properly situated with the Department of Industry, Trade and Commerce where the required knowledge and technical capacity is available.

Both the made in Canada approach and the remission program based on availability have a common objective, which is to maintain tariff protection for domestic manufacturing while reducing consumer-user costs. The latter approach means, however, that tariff protection is retained on evidence of a potential production capacity whereas a made in Canada determination requires an existing (10 per cent) market share. The availability basis therefore would overcome a serious drawback inherent, as discussed, in the made in Canada concept, namely, its undesirable implications for newly established enterprises. There are in addition some further advantages to the availability alternative from the standpoint of the consumer or user. Where goods are ruled "of a class or kind made in Canada" a fairly broad class or spectrum of commodities may become subject to duty. Within this range of goods there may be categories or types not, in fact, obtainable from Canadian production but which are nonetheless made dutiable. This

sort of situation, which needlessly penalizes users, would likely occur less frequently under the availability approach which proceeds on a case-by-case basis. The latter also appears to be much more flexible and responsive to market or technological changes. In sum, the use of a duty remissions programme based on availability vis-à-vis duty exemptions based on made in Canada determinations offers a decided advantage to Canadian industry but, at the same time, does not necessarily disadvantage users; in fact the availability approach probably holds out benefits to importers or users as well.

Concessional Tariff Provisions in Other Countries

Customs tariffs in most countries usually make some provision for the duty-free entry of goods of an educational, scientific or cultural nature. A number of countries are signatories, for example, to the *Beirut Agreement* of 1948 covering those goods and institutions described, in the Canadian Tariff, by item 69615-1. Duty concessions are also conferred to some of the goods/institutions encompassed by Canadian item 69605-1. In the case of the *Brussels Nomenclature*, and in the case of the common tariff structure adopted by those countries within the European Economic Community, there is no explicit provision, or duty-free classification, contained in the tariff schedules *per se* which compares to item 69605-1. However, to varying degrees, the sort of duty relief conferred by this item may be similarly provided for by other countries according to separate ancillary tariff regulations.

It is noted that the concept of availability from domestic production, as embodied in Canadian items 42700-1 and 41100-1, is also employed in the tariffs of other countries. In the Australian tariff (item 99.99.223) goods for "Components or materials in a research programme or project at a university ... or at an institution that is a college of advanced education" are duty-free, for example, but not if "suitably equivalent goods [being] the produce or manufacture of Australia are reasonably available." Reasonable availability in this instance is further defined, in part, as being where "the production of goods is a matter of fact and potential to produce can be established with a large degree of certainty." In the U.S. Customs Tariff a similar approach is also used. As is discussed subsequently, in the case of U.S. item 851.60 duty exemption depends on whether users can certify that "no instrument or apparatus of equivalent scientific value ... is being manufactured in the United States."

Insomuch as the United States constitutes Canada's chief trading partner and as imports under 69605-1 are almost entirely of U.S. origin, reference to comparable U.S. concessions are of particular pertinence. Most of the tariff classifications found in Schedule 8 (Part 4) of the Tariff Schedules of the United States relate to those goods and institutions encompassed by 69605-1 in the *Canadian Customs Tariff*. Part 4 of Schedule 8 ("Special Classification Provisions - Importations of Religious, Educational, Scientific, and other Institutions") in the U.S. Customs Tariff is set forth in Table IVD; included are 17 U.S. tariff items which, taken together, probably roughly match the scope of Canadian item 69605-1, although the U.S. tariff grouping here is probably larger in coverage.

The duty-free concessions conferred via section 8(4) items in the United States appear to be small if compared against the equivalent goods admitted duty-free under Canadian item 69605-1. In 1977 imports into the United States under all 17 above duty-exempt U.S. items amounted to \$68.3 million as against a Canadian total of just under \$200 million for item 69605-1. Aside from this comparison in absolute terms, proportionate to total merchandise importation the extent of similar U.S. concessions seems very much smaller. In 1977 goods granted free entry under the provisions of 69605-1 represented approximately $\frac{1}{2}$ of 1 per cent of total Canadian imports. Under corresponding U.S. provisions the proportion is conspicuously lower, at about 5/100 of 1 per cent.

Among the U.S. items included in Schedule 8 (Part 4), item 851.60 concerning instruments and apparatus is predominant in terms of import value. This U.S. item is of particular significance, moreover, in that Canadian item 69605-1 primarily comprises similar instruments and apparatus entered by counterpart "non-profit institutions ... established for educational or scientific purposes." While the scope of U.S. item 851.60 is titularly quite broad, as broad in scope as 69605-1, there are, however, some attaching, and very constrictive, regulations to this U.S. free entry provision. These constrictions are found in Headnote 6 of Section 8 (Part 4) and are reproduced in Table IVE. As mentioned earlier free entry concessions under U.S. item 851.60 are limited only to goods where U.S. manufacturers do not manufacture instruments or apparatus "of equivalent scientific value." Moreover, as indicated in Table IVE, the attaching U.S. regulations evidently entail administrative procedures of a complicated and time-consuming nature. These include: (a) an application to the Secretary of the Treasury by end-using institutions; (b) consideration of such applications by the Secretary of Commerce or by the Court of Customs and Patent Appeals; (c) publication in the Federal Register; and (d) opinions by the Secretary of Health, Education and Welfare. It is noted that, in the course of its investigations respecting Reference 155, the Tariff Board heard contentions, from Canadian manufacturers seeking to export to the U.S. institutional market, that they often encountered U.S. administrative procedures of considerable difficulty. In the case of U.S. item 851.60 such contentions would appear to have some

validity. It is added that, for Canadian and other foreign manufacturers seeking to develop a U.S. market, there may be further restrictions resulting from U.S. provisions known collectively as the "Buy America Act." These apply to purchases by the U.S. Federal Government, or by organizations/institutions funded by the U.S. government, and extend a price preference, ranging from 5 to 12 per cent, to domestic U.S. manufacturers.

Tariff Items 69605-1 and 69610-1 and the Federal Sales Tax

The federal sales tax (FST), generally 12 p.c., is imposed under the authority of Part V of the *Excise Tax Act*, on the duty-paid value of imported goods and on the manufacturer's selling price for domestically-produced goods. The FST, an indirect tax on the consumption or use of the final goods, is applied irrespective of the country of origin of the goods, and is therefore neutral with respect to the competitive position of domestic manufacturers. This is so because it would be senseless to administer the FST in a manner which would be to the disadvantage of Canadian manufacturers. On the other hand, the GATT prohibits the FST from being applied to the disadvantage of foreign producers.

The *Excise Tax Act* lists a number of circumstances under which sales are tax exempt and Schedule III to the said *Act* specifies a wide range of goods which are exempt from this commodity tax. Some products are exempt for all uses and users. Other products are tax free when used for specific purposes only. This is the case with the goods covered by tariff item 69605-1; the tariff item itself restricts its own application to qualified institutions. Those goods described under items 69605-1 and 69610-1 are given a specific FST exemption in that these items are listed in the *Excise Tax Act* under Part VII of Schedule III (*Goods Enumerated in Customs Tariff Items*):

1. *Goods enumerated in Customs Tariff items ... 69605-1, 69610-1 ...*
3. *Articles and materials for use exclusively in the manufacture of goods enumerated in Customs Tariff items ... 69605-1, 69610-1.*
4. *Materials, not including plant equipment consumed in process of manufacture or production, that enter directly into the cost of the goods enumerated in Customs Tariff items 69605-1, 69610-1.*

The effect of these provisions is to exempt from sales tax not only all goods imported under these two items, but also all domestically-produced goods which, if imported, would be classified under either of these items and also other articles and materials, domestic or imported, used in the process of manufacturing such goods, regardless of the appropriate tariff classification.

It is further pointed out that goods covered by clauses 12 and 13 are admissible under the item only when "of a class or kind not made in Canada". Parts for the goods covered by these clauses, as specified in clause 14, and also "material and articles for use exclusively in the manufacture of" such goods (tariff item 69610-1) would also be exempt only when the goods qualify for tariff item 69605-1. When a product hitherto covered by clause 12 or 13 is ruled "made in Canada", the product itself, together with its "parts", "materials and articles" ceases to be exempt from FST, whether domestically produced or imported.

The concern here is not a question of inequity, i.e., exemption for imported goods versus taxation of domestically-made goods; in the case of the "made" product, in line with the aforementioned neutrality of the FST, both the imported and the home product are taxable. At issue here is a change in tax status from "not made" and exempt to "made" and taxable. When there is no Canadian production the goods are FST exempt, but when there is domestic production the goods are taxable. The very fact of undertaking production in Canada therefore, increases the cost to end-users. The exemption from FST attached to a "not made in Canada" provision consequently adds to the already formidable difficulties of new product development in this country. The tax exemption should be extended to include goods regardless of their made in Canada status, or not made goods should be declared taxable as well. The present situation under 69605-1 in this respect discourages domestic production.

Alternative FST Exemption

Even if the references to items 69605-1 and 69610-1 were removed from Part VII, a number of the products benefitting from the sales tax exemption so provided would continue to be exempt under other provisions of the *Excise Tax Act*. These provisions are as follows:

A. Section 27(2) of the Act

Notwithstanding anything in subsection (1), the consumption or sales tax shall not be payable on goods

(a) sold by a licensed manufacturer to another licensed manufacturer if the goods are partly manufactured goods;

- (b) imported by a licensed manufacturer if the goods are partly manufactured goods;
- (c) imported by a licensed wholesaler otherwise than for his own use or for rental to others, on importation;
- (d) sold by a licensed manufacturer to a licensed wholesaler otherwise than for his own use or for rental to others;
- (e) sold by a licensed wholesaler to a licensed manufacturer if the goods are partly manufactured goods; or
- (f) sold by a licensed wholesaler to another licensed wholesaler, but if a licensed wholesaler sells goods to another licensed wholesaler at a price less than the value upon which the tax would be computed under paragraph (1)(c), the vendor forthwith becomes liable to pay the tax upon the difference between such value and his sale price.

These provisions would apply mainly to parts (clause 14) and to goods described under item 69610-1.

B. Section 44(2) of the Act

Subject to subsection (2.1), where goods have been purchased or imported by Her Majesty in right of a province for any purpose other than

- (a) resale;
 - (b) use by any board, commission, railway, public utility, university, manufactory, company or agency owned, controlled or operated by the government of the province or under the authority of the legislature or the lieutenant governor in council, or
 - (c) use by Her Majesty or by Her agents or servants in connection with the manufacture or production of goods or use for other commercial or mercantile purposes,
- a refund of taxes paid under Part III, IV or V may be granted to Her Majesty or to the imported, transferee, manufacturer, producer, wholesaler, jobber or other dealer as the case may require.*

Exception (2.1) *No refund shall be paid pursuant to subsection (2) to an importer, transferee, manufacturer, producer, wholesaler, jobber or other dealer who supplies goods to Her Majesty in right of a province in respect of which there is in force at the time the goods are supplied*

a reciprocal taxation agreement referred to in section 35 of the Federal Provincial Fiscal Arrangements and Established Programs Financing Act, 1977.

This would apply to the entire item, with respect to eligible purchases by provincial governments, but primarily to clauses 1, 2, 11, 12, 13 and 14. This is, of course, a refund rather than an exception.

C. Section 46(1) of the Act

Where materials have been purchased by or on behalf of

(a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution,

(b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis, or

(c) a corporation wholly owned and controlled by Her Majesty in right of a province that is established for the sole purpose of providing residences for students or universities or other similar educational institutions, for use exclusively in the construction of such residences,
and the tax imposed by Part V has been paid in respect of those materials, the Minister may, on application by such institutions, organization or corporation in such form as the Minister prescribes, made to the Minister within four years from the time the materials were purchased, pay to such institution, organization or corporation an amount equal to that tax.

This refund provision is understood to have been interpreted broadly with respect to the original equipment for such buildings. It would mainly be relevant to clauses 13 and 14 but might also cover goods of clauses 1 and 12.

D. Section 49 of the Act

Where goods have been purchased for the sole purpose of constructing, equipping or operating an establishment

(a) that is wholly owned, directly or indirectly, by or on behalf of one or more bona fide public hospitals each of which has been certified as such by the Department of National Health and Welfare, and

(b) that is established for the sole purpose of providing laundry services, cleaning services or linen supply services to one or more hospitals described in paragraph (a)

and the tax imposed by Part V has been paid in respect of those goods, the Minister may, on application by or on behalf of such establishment in such form as the Minister prescribes, made to the Minister within four years from the time the goods were purchased, pay to such establishment an amount equal to that tax.

This refund would relate primarily to clauses 13 and 14.

E. Exemptions under Schedule III

Part III - Educational, Technical, Cultural, Religious and Literary

1. Bibles, missals, prayer books, psalm and hymn books, religious tracts, Sunday School lesson pictures, books bound and unbound, pamphlets, booklets, leaflets, scripture, prayer, hymn and mass cards and religious mottoes and pictures unframed, for the promotion of religion, and materials to be used exclusively in the manufacture thereof, but not including forms, stationery or annual calendars.

2. Chalkboards, desks, tables and chairs, not including upholstered chairs, when sold to or imported by educational institutions for their own use and not for resale, and materials for use exclusively in the manufacture thereof.

3. College and School annuals; magazines and literary papers unbound regularly issued at stated intervals not less frequently than four times yearly; newspapers; sheet music; materials for use exclusively in the manufacture thereof.

6. Phonograph records and audio tapes authorized by the Department of Education of any province in Canada for instruction in the English or the French language, and materials for use exclusively in the manufacture thereof.

The Minister shall be the sole judge as to whether any printed material comes within any of the classes mentioned in sections 1, 3, 5 and 8 of this Part.

The underlined exemptions in sections 1 and 3 relate to clauses 3, 4 and 5; Section 6 relates to clause 6. Section 2 would exempt goods which might be admitted under clauses 12, 13 and 14 and item 69610-1.

Part IV - Farm and Forest

2. Animals, living; poultry, living; bees.

6. Cut flowers; cut foliage; dormant flower bulbs, corms, roots and tubers; nursery stock; potted, flowering or bedding plants; vegetable plants.

15. Grains and seeds in their natural state; hay; hops; straw.

Section 2 would exempt all goods of clause 9; sections 6 and 15 exempt virtually all goods of clause 10.

Part VIII - Health

1. Any material, substance, mixture, compound or preparation, of whatever composition or in whatever form, including materials for use exclusively in the manufacture thereof, sold or represented for use in the diagnosis, treatment mitigation or prevention of a disease, disorder, abnormal physical state, or the symptoms thereof, in humans or animals or for restoring, correcting or modifying organic functions in humans or animals, but not including cosmetics.

2. Articles and materials for the sole use of any bona fide public hospital certified to be such by the Department of National Health and Welfare, when purchased in good faith for use exclusively by the said hospital and not for resale.

18. Articles and materials for use exclusively in the manufacture or production of the tax exempt products mentioned in this Part.

The provisions would exempt a large part of the imports under clause 11, as well as goods under most other clauses, but most particularly clauses 1, 2, 12, 13 and 14 and tariff item 69610-1.

*Part XIII - Production Equipment, Processing
Materials and Plans*

1. All the foregoing;

(a) machinery and apparatus sold to or imported by manufacturers or producers for use by them directly in

(i) the manufacture or production of goods

(ii) the development of manufacturing or production process for use by them, or

(iii) the development of goods for manufacture or production by them;

(k) repair and maintenance equipment sold to or imported by manufacturers or producers for use by them in servicing goods described in paragraphs (a) to (j) that are used by them;

(l) parts for goods described in paragraphs (a) to (k);

(o) articles and materials for use in the manufacture of goods described in paragraphs (a) to (n)

2. Materials (not including grease, lubricating oils or fuel for use in internal combustion engines) consumed or expended by manufacturers or producers directly in

- (a) *the process of manufacture or production of goods,*
- (b) *the development of manufacturing or production processes for use by them,*
- (c) *the development of goods for manufacture or production by them ...*

These exemptions would primarily be of interest to domestic manufacturers of goods which, if imported, would fall under 69605-1 or 69610-1.

Part XVIII - Energy Conservation Equipment

1. *Heat pumps for use principally to provide heat in heating systems of a building.*
2. *Heat recovery units and devices for extracting heat from exhaust air or waste water for recovery of energy.*
3. *Solar cells designed to produce electricity directly from the sun for charging batteries.*
4. *Solar furnaces, solar panels and tubes specially designed for collecting and converting solar energy into heat for use in solar heating systems.*
7. *Timer-controlled thermostats designed to provide automatic control of heating systems for buildings.*
8. *Wind generators, windmills and similar fixed location devices for converting wind power to mechanical or electrical energy; pumps and generators specially designed for use directly with such devices.*
9. *Such additional equipment, articles and materials as are prescribed by regulation of the Governor in Council to be energy conservation equipment.*
10. *Articles and materials for use exclusively in the manufacture or production of the tax exempt goods mentioned in sections 1 to 9 of this Part.*

These provisions would relate primarily to clause 13 and 14 and to tariff item 69610-1.

In summary, there are alternative exemptions available for some goods from virtually all clauses of item 69605-1 (and for most goods of 69610-1). All goods under clause 9, all, or almost all, goods under clause 10, and most goods under clause 11 and a substantial portion of those under clauses 2 and 4 would be tax exempt. For the other clauses, the proportions would probably be considerably smaller. It is, however, not unlikely that one-third or more of the goods entering under 69605-1 would retain a tax exemption even if the item numbers were struck from Part VII of Schedule III.

Furthermore, even if tariff item 69605-1 itself were deleted, FST exemption would be obtained under a number of the alternative tariff items which would then become applicable. Nine such items, listed in Part VII of Schedule III have been identified, namely 40924-1, 47600-1, 47605-1, 47810-1, 68200-1, 69520-1, 69615-1, 69700-1 and 69900-1. Imports entering under 69605-1, which would be FST exempt under these other tariff items, are estimated at \$22.3 million. At least two-thirds of this amount would be covered by the provisions of the *Excise Tax Act* already cited, comprising mostly hospital equipment.

In addition, it should be noted that some goods, particularly of clauses 13 and 14, would probably benefit from the reduced rate of federal sales tax, 5 p.c., applicable to goods listed in Schedule V, whether or not item 69605-1 were retained (without its present FST exemption). Parts 1 and 2 under this schedule provide for reduced FST rates on various construction materials and on equipment for buildings.

Table IVA: List of Tariff Items Relevant to
Tariff Item 69605-1, by M.F.N. Rates of Duty^(a)

<u>Rate of Duty</u>	<u>Relevant Tariff Items</u>					
Free	505-1,	17000-1,	17200-1,	18005-1,	18405-1,	19820-1,
	20605-1,	20610-1,	20615-1,	20630-1,	20640-1,	20660-1,
	21950-1,	25404-1,	31615-1,	32900-1,	34715-1,	35500-1,
	40924-1,	40938-1,	41002-1,	41021-1,	41024-1,	41035-1,
	41040-1,	41215-1,	42300-1,	42865-1,	43150-1,	43155-1,
	43806-1,	43868-1,	43898-1,	44028-1,	44051-1,	44059-1,
	44200-1,	44537-1,	46220-1,	46225-1,	46235-1,	46240-1,
	46241-1,	47600-1,	47605-1,	47810-1,	47820-1,	47830-1,
	47835-1,	48200-1,	49500-1,	59755-1,	65800-1,	68200-1,
	69400-1,	69520-1,	69615-1,	69625-1,	69630-1,	69640-1,
	69700-1,	69900-1,	84900-1,	92801-3,	92850-1,	92851-1,
	93100-1,	93102-1,	93104-1,	93811-1,	93819-5.	
5 p.c.	31605-1,	34815-1,	35101-1,	39705-1,	42600-1,	43130-1.
7.5 p.c.	18200-1,	41405-1,	42100-1,	44052-1,	44532-1,	44536-1.
9 p.c.	43125-1.					
10 p.c.	17100-1,	18710-1,	30000-1,	31105-1,	36605-1,	38100-1,
	40102-1,	41202-1,	41415-1,	46200-2,	46315-1,	49104-1,
	59505-1,	65810-1,	92816-1,	92838-6,	92904-5,	93901-1,
	93903-1,					
12.5 p.c.	18715-1,	19750-1,	27102-1,	27502-1,	28205-1,	32616-1,
	35305-1,	36900-1,	40121-1,	41410-1,	43145-1,	43810-1,
	44538-1.					
15 p.c.	19200-1,	19300-1,	19700-1,	19800-1,	19915-1,	22001-1,
	31400-1,	32648-1,	41011-1,	41013-1,	41022-1,	42700-1,
	42729-1,	42805-1,	42815-1,	43105-1,	43803-1,	43829-1,
	44514-1,	44516-1,	44518-1,	44533-1,	44535-1,	44540-1,
	44627-1,	46200-1,	46205-1,	46210-1,	46300-1,	46305-1,
	49210-1,	50600-1,	59720-1,	59725-1,	92804-1,	92808-1,
	92809-1,	92813-1,	92817-3,	92818-1,	92828-1,	92830-1,
	92838-1,	92839-1,	92840-1,	92843-1,	92849-1,	92901-1,
	92902-1,	92913-1,	92923-1,	92927-1,	92938-1,	92939-1,
	92942-1,	92944-1,	93209-1,	93213-1,	93402-1,	93813-1,
	93819-1,	93902-75.				
17.5 p.c.	18010-1,	18030-1,	18700-1,	19215-1,	19900-1,	19910-1,
	27211-1,	32700-1,	35200-1,	35215-1,	35400-1,	39700-1,
	40000-1,	40123-1,	43135-1,	43200-1,	43910-1,	44400-1,

Table IVA (concl.)

<u>Rate of Duty</u>	<u>Relevant Tariff Items</u>					
17.5 p.c. (concl.)	44506-1, 44641-1, 61800-1,	44508-1, 46105-1, 67000-1,	44524-1, 46800-1, 71100-1,	44526-1, 51902-1, 93902-81,	44603-1, 53310-1, 93907-1.	44612-1, 59707-1,
20 p.c.	17900-1, 32305-1, 44300-1, 59705-1, 62300-2, 68905-1.	18000-1, 32603-1, 44504-1, 59730-1, 62410-1,	18100-1, 41400-1, 51500-1, 61000-1, 62420-1,	23600-1, 41507-1, 51901-1, 61900-1, 65300-1,	28700-1, 41515-1, 54125-1, 62200-1, 65500-1,	28800-1, 43300-1, 58000-1, 62300-1, 65811-1,
22.5 p.c.	52305-1,	54305-1.				
25 p.c.	36800-1, 56521-1,	36800-2, 56830-1,	53405-1, 56910-1,	56300-1, 57600-1.	56515-1,	
27.5 p.c.	57401-1.					

Relevant Tariff Items Where Specific
Rates of Duty Apply^(b)

15 p.c. 65706-1.

16.7 p.c. 65705-1.

(a) Classification is based on the permanent statutory rates of duty, any temporary rates in effect are not reflected in this list.

(b) Specific M.F.N. rates expressed in terms of estimated *ad valorem* equivalent.

Source: Tariff Board.

Table IVB: 20 Principal Dutiable Tariff Classifications
Relevant to Tariff Item 69605-1

<u>Item</u>	<u>Nomenclature</u>	<u>M.F.N. Rate</u>
17100-1	Books, printed, periodicals and pamphlets, or parts thereof, n.o.p., not to include blank account books, copy books, or books to be written or drawn upon...	10
18030-1	Plans and drawings, related specifications, any substitute therefor, reproductions of the foregoing, n.o.p.; maps and charts, n.o.p.	17½
22001-1	All medicinal and pharmaceutical preparations, compounded of more than one substance, whether or not containing alcohol, including patent and proprietary preparations, tinctures, pills, powders, troches, lozenges, filled capsules, tablets, syrups, cordials, bitters, anodynes, tonics, plasters, limiments, salves, ointments, pastes, drops, waters, essences and oils	15
32603-1	Demijohns or carboys, bottles, flasks, phials, jars and balls, of glass, not cut, n.o.p.; lamp chimneys of glass, n.o.p.; decanters and machine-made tumblers of glass, not cut nor decorated, n.o.p.	20 ^(a)
32648-1	High thermal shock resisting glassware	15 ^(a)
41415-1	Bookkeeping, calculating and invoicing machines and complete parts thereof, n.o.p.	10
42700-1	Machines, n.o.p., and accessories, attachments, control equipment and tools for use therewith; parts of the foregoing	15 ^(b)
44524-1	Electric apparatus and complete parts thereof, n.o.p.	17½
44532-1	Electrical instruments and apparatus of precision of a class or kind not made in Canada, viz.: Meters or gauges for indicating and/or recording altitude, amperes, comparisons, capacity, density, depth, distance, electrolysis, flux, force, frequency, humidity, inductance, liquid levels, ohms, operation, power factor, pressure, space, speed, stress, thrust, synchronism, temperature, time, volts, volume, watts, weight; complete parts thereof	7½ ^(a)

Table IVB (cont.)

<u>Item</u>	<u>Nomenclature</u>	<u>M.F.N. Rate</u>
44533-1	Radio and television apparatus and parts thereof, n.o.p.	15
44538-1	Recorders, reproducers and dictation and recording and transcribing equipment using magnetizable tape as a recording medium; parts thereof, n.o.p.	12½
44603-1	Manufactures, articles or wares, of iron or steel or of which iron or steel or both are the component materials of chief value, n.o.p.	17½
46105-1	Safes including doors; doors and door frames for vaults; scales, balances and weighing beams of all kinds, n.o.p.	17½
46200-1	Instruments for observation, measurement, experimen- tation or demonstration in respect of natural phenomena, n.o.p.; photographic, mathematical and optical instruments, n.o.p.; speedometers, cyclo- meters and pedometers, n.o.p.; parts of all the foregoing	15
46300-1	Still picture projectors, and slides and film strips therefor, n.o.p.	15
65810-1	Magnetic recording tape, n.o.p., manufactured from synthetic resins or cellulose plastics: Unrecorded	10
65811-1	Recorded	20
71100-1	All goods not enumerated in this schedule as subject to any other rate of duty, and not otherwise declared free of duty, and not being goods the importation whereof is by law prohibited	17½

Table IVB (concl.)

<u>Item</u>	<u>Nomenclature</u>	<u>M.F.N. Rate</u>
	93819 - Chemical products and preparations of the chemical or allied industries (not including those consisting of mixtures of natural products other than compounded extenders for paints), n.o.p.; residual products of the chemical or allied industries, n.o.p.; not including soap, nor pharmaceutical, flavouring, perfumery, cosmetic or toilet preparations:	
93819-1	Other than the following	15
93907-1 ^(c)	93907 - Articles of materials of the kinds described in headings 93901 to 93906 inclusive, n.o.p.	17½

(a) GATT rate.

(b) Further provided for is a programme enabling duty remission where goods are determined to be not available from Canadian production.

(c) Refers to articles made of various plastic materials.

Table IVC: 15 Principal Duty-Free Tariff
Classifications Relevant to Item 69605-1

<u>Item</u>	<u>Nomenclature</u>
505-1	Animals, living, n.o.p.
17200-1	Books, pamphlets and charts, printed or published by any government abroad; official financial and business reports and statements issued by companies or associations abroad; books and pamphlets, and replacement pages therefor, for the promotion of religion, medicine and surgery, the fine arts, law, science, technical training, and the study of languages, not including dictionaries. Scripture and prayer cards, and religious pictures and mottoes, not including frames; books, bound or unbound, which have been actually printed and manufactured more than twelve years; manuscripts; insurance maps; freight rates, passenger rates and timetables issued by transportation companies abroad and relating to transportation outside of Canada, in book or in pamphlet form ...
20605-1	Sera and antisera, toxoids, viruses, toxins and antitoxins; virus and bacterial vaccines, bacteriophage and bacterial lysates; allergenics, liver extracts, pituitary extracts, epinephrine and its solutions; insulin with or without zinc, globin or protamine; all of the foregoing when imported for parenteral administration in the diagnosis, prevention or treatment of diseases of man ...
20615-1	Blood plasma or serum of human origin, or fractions thereof, extenders or substitutes therefor; all of the foregoing when imported for parenteral administration
20630-1	Containers, whether or not partially filled with anticoagulants, and units consisting of such containers and accessories; filters, drop counters, clamps, tubes, bail bands, labels, corks, stoppers or other closures; all the foregoing for use in the collection, preparation, storage, transportation or administration of human blood (whether whole or in the form of liquid or dry serum or plasma) and extenders or substitutes therefor
43150-1	Geophysical precision instruments and equipment of a class or kind not made in Canada: Parts, attachments, tripods, base plates and fitted cases for all the foregoing ...

Table IVC (cont.)

<u>Item</u>	<u>Nomenclature</u>
47600-1	X-ray apparatus and X-ray film; microscopes, illuminating devices and stands for use therewith; the following surgical, dental, veterinary and diagnostic articles: instruments; sterilizers; cobalt-therapy units; anaesthesia, surgical suction and oxygen administering apparatus including motive power and wall outlets but not piping systems. Parts of all the foregoing; electric light lamps designed for use with all the foregoing; portable cases and containers for all the foregoing ...
47605-1	Operating room lights designed to minimize shadow, not including bulbs, of a class or kind not made in Canada; chairs and tables for surgical operating purposes; infant incubators; infant and patient medical-alert or identification devices including beads, tapes and ribbons of any material, cases therefor and equipment for their application; electrocardiographs, paper and sensitized film for use therein; apparatus for sterilizing purposes, including bedpan washer-sterilizers but not including washing nor laundry machines; parts of all the foregoing; electroencephalographic paper. All for the use of any public hospital, under such regulations as the Minister may prescribe ...
47810-1	Aural, nasal, mastectomy and other medical or surgical prostheses; materials for use in reconstructive surgery; ileostomy, colostomy and urinary appliances or articles other than infants' pants and diapers, designed to be worn by an individual; materials and articles required therewith for proper application and maintenance ...
69615-1	Moving picture films, sound or silent, separate sound film track, slides and slide films, positive or negative, and sound recordings for use therewith; Sound recordings for use by educational, scientific or cultural institutions or societies; Sound recordings other than for sale or rental; Models, static and moving; Video tape recordings; Wall charts, maps and posters; All the foregoing which (a) are of an educational, scientific or cultural character within the meaning of the Agreement for Facilitating the International Circulation of Visual and Auditory Materials

Table IVC (concl.)

<u>Item</u>	<u>Nomenclature</u>
	<p>of an Educational, Scientific and Cultural Character adopted at Beirut, Lebanon in 1948, and</p> <p>(b) have been certified by the Government or by a recognized representative authority of the Government of the country of production or by an appropriate representative of the United Nations Educational, Scientific and Cultural Organization as being of an international educational, scientific or cultural character;</p> <p>Under such regulations as the Minister may prescribe ...</p>
69625-1	<p>Sound recordings specially made for use in the study of languages;</p> <p>Sound recordings, tape recorders and phonographs for <i>bona fide</i> libraries, and being the property of the organized authorities of such libraries and not the property of individuals or business concerns; under such regulations as the Minister may prescribe ...</p>
69630-1	Articles and materials designed for the training of mentally retarded children, when for the use and by order of any school, academy, college, seminary of learning, or any association, society or institution that trains mentally retarded children ...
69640-1	Sound recordings of an instructional character for the promotion of knowledge of the arts, sciences, professions, crafts or trades, but not including musical recordings or recordings of an entertainment or advertising character ...
92850-1	92850 - Fissile chemical elements and isotopes; other radio-chemical elements and radio-active isotopes; compounds, inorganic or organic, of such elements or isotopes, whether or not chemically defined; alloys, dispersions and cermets, containing any of these elements, isotopes or compounds ...
92851-1	92851 - Isotopes and their compounds, inorganic or organic, whether or not chemically defined, other than isotopes or compounds falling within heading 92850 ...

Table IVD: Comparable Duty Exempt Provisions In
the Tariff Schedules of the United States(a)

<u>Item</u>	<u>Nomenclature</u>
	Articles imported for the use of an institution established solely for religious purposes:
850.10	Drawings, engravings, etchings, lithographs, woodcuts, sound recordings, recorded video tapes, and photographic and other prints, all the foregoing whether bound or unbound, and exposed photographic films (including motion-picture films) whether or not developed
850.30	Painted, colored, or stained glass windows and parts thereof, all the foregoing valued over \$15 per square foot and designed by, and produced by or under the direction of, a professional artist
850.40	Regalia
850.50	Handwoven fabrics, to be used by the institution in making religious vestments for its own use or for sale
	Articles imported for the use of an institution organized and operated for religious purposes, including cemeteries, schools, hospitals, orphanages, and similar nonprofit activities staffed and controlled by such institution:
850.70	Altars, pulpits, communion tables, baptismal fonts, shrines, mosaics, iconostases, or parts, appurtenances, or adjuncts of any of the foregoing, whether to be physically joined thereto or not, and statuary (except granite or marble cemetery headstones, granite or marble grave markers, and granite or marble feature memorials, and except casts of plaster of Paris, or of compositions of paper or papier-mâché)
	Articles imported for the use of any public library, any other public institution, or any nonprofit institution established for educational, scientific, literary, or philosophical purposes, or for the encouragement of the fine arts:
851.10	Drawings and plans, reproductions thereof, engravings, etchings, lithographs, woodcuts, globes, sound recordings, recorded video tapes, and photographic and other prints, all the foregoing whether bound or unbound, and exposed photographic films (including motion-picture films) whether or not developed

Table IVD (cont.)

<u>Item</u>	<u>Nomenclature</u>
851.15	Letters, numbers, and other symbols; number cards and other arithmetical materials; printed matter; blocks and other dimensional shapes; geometrical figures, plane or solid; geographical globes; tuned bells and basic materials for understanding music; model articles and figures of animate objects; puzzles and games; flags; dressing frames; dummy clocks; bottles, boxes, and other containers or holders; all the foregoing, whether or not in sets, fabricated to specification and designed for the classroom instruction of children; and containers or holders fabricated to specification and designed for the storage or such instructional articles when not in use
851.20	Sculptures and statuary
851.30	Regalia
851.40	Any textile machine or machinery, or part thereof, solely for the instruction of students
851.50	Patterns and models exclusively for exhibition or educational use at any such institution
Articles entered for the use of any nonprofit institution, whether public or private, established for educational or scientific purposes:	
851.60	Instruments and apparatus, if no instrument or apparatus of equivalent scientific value for the purposes for which the instrument or apparatus is intended to be used is being manufactured in the United States (see headnote 6 to this part)
851.65	Repair components for instruments or apparatus admitted under item 851.60
852.20	Wild animals (including birds and fish) imported for use, or for sale for use, in any scientific public collection for exhibition for scientific or educational purposes
Articles imported for the use of an institution established to encourage the saving of human life:	
853.10	Lifeboats and life-savings apparatus

Table IVD (concl.)

<u>Item</u>	<u>Nomenclature</u>
	Articles imported for the use of any nonprofit institution, whether public or private, established for educational, scientific, or therapeutic purposes:
854.10	Apparatus utilizing any radioactive substance in medical diagnosis or therapeutic treatment, including the radioactive material itself when contained in the apparatus as an integral element thereof, and parts or accessories of any of the foregoing
854.20	Cellulosic plastics materials imported for use in artificial kidney machines or apparatus by a hospital or by a patient pursuant to prescription of a physician
<hr/>	
(a)	Includes tariff classifications contained in Schedule 8 - Special Classification Provisions (Part 4 - Importations of Religious, Educational, Scientific, and Other Institutions).

Table IVE: Regulations Pertinent to Item 851.60,
Tariff Schedules of the United States

(a) The term "instruments and apparatus" (item 851.60) embraces only instruments and apparatus provided for in ... but the term does not include materials or supplies, nor does it include ordinary equipment for use in building construction or maintenance or for use in supporting activities of the institution such as its administrative offices or its eating or religious facilities.

(b) An institution desiring to enter an article under item 851.60 shall make application therefor to the Secretary of the Treasury including therein (in addition to such other information as may be prescribed by regulation) a description of the article, the purposes for which the instrument or apparatus is intended to be used, the basis for the institution's belief that no instrument or apparatus of equivalent scientific value for such purposes is being manufactured in the United States, and a statement that either the institution has already placed a bona fide order for the instrument or apparatus or has a firm intention, in the event of favorable action on its application, to place such an order on or before the final day specified in paragraph (d) of this headnote for the placing of an order. If the application is made in accordance with the applicable regulations, the Secretary of the Treasury shall promptly forward copies thereof to the Secretary of Commerce and to the Secretary of Health, Education, and Welfare. If, at any time while its application is under consideration by the Secretary of Commerce or by the Court of Customs and Patent Appeals on appeal from a finding by him, an institution cancels an order for the instrument or apparatus to which its application relates or ceases to have a firm intention to order such instrument or apparatus, it shall promptly so notify the Secretary of Commerce or such Court, as the case may be.

(c) Upon receipt of the application the Secretary of Commerce shall, by publication in the Federal Register, afford interested persons and other Government agencies reasonable opportunity to present their views with respect to the question whether an instrument or apparatus of equivalent scientific value for the purposes for which the article is intended to be used is being manufactured in the United States. After considering any views presented pursuant to this paragraph, including any written advice from the Secretary of Health, Education, and Welfare, the Secretary of Commerce shall determine whether an instrument or apparatus of equivalent scientific value to such article, for the purposes for which the instrument or apparatus is intended to be used, is being manufactured in the United States. Each finding by the Secretary of Commerce under this paragraph shall be promptly reported to the Secretary of the Treasury and to the applicant institution. Each such finding shall be published in the Federal Register, with a statement of the reasons therefor, on or before the ninetieth day following the date on which the application was made to the Secretary of the Treasury in accordance with applicable regulations.

Table IVE (concl.)

(d) Item 851.60 shall not apply with respect to any instrument or apparatus unless a bona fide order therefor has been placed, by the institution making the application under this headnote, on or before the sixtieth day following the day on which a finding of the Secretary of Commerce favorable to the institution has become final and conclusive.

(e) Within 20 days after the publication in the Federal Register of a finding by the Secretary of Commerce under paragraph (c) of this headnote, an appeal may be taken from said finding only upon a question or questions of law and only to the United States Court of Customs and Patent Appeals --

- (i) by the institution which made the application under paragraph (b) of this headnote,
- (ii) by a person who, in the proceeding which led to such finding, represented to the Secretary of Commerce in writing that he manufactures in the United States an instrument or apparatus of equivalent scientific value for the purposes for which the article to which the application relates is intended to be used,
- (iii) by the importer thereof, if the article to which the application relates has been entered at the time the appeal is taken, or
- (iv) by an agent of any of the foregoing.

Any appeal under this paragraph shall receive a preference over all other matters before the Court and shall be heard and determined as expeditiously as the Court considers to be practicable. The judgment of the Court shall be final.

(f) The Secretary of the Treasury and the Secretary of Commerce may prescribe joint regulations to carry out their functions under this headnote.

CAI
FN 55
-79RS6



ANTIQUES, COLLECTIBLES AND HOBBY EQUIPMENT

REFERENCE

156

A HISTORY OF
THE TARIFF BOARD

REFERENCE No. 156

A REPORT OF AN INQUIRY

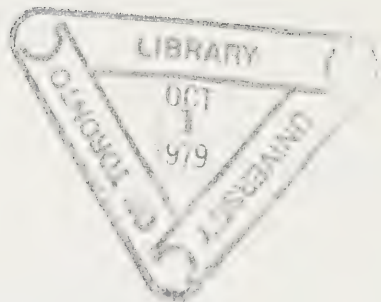
by the

TARIFF BOARD

on

**ANTIQUES, COLLECTIBLES AND
HOBBY EQUIPMENT**

This report, made pursuant to an order by the Minister of Finance and signed by the Board on June 1, 1979, is presented for tabling in Parliament under the provisions of section 6 of the Tariff Board Act.



© Minister of Supply and Services Canada 1979

Available in Canada through

Authorized Bookstore Agents
and other bookstores

or by mail from

Canadian Government Publishing Centre
Supply and Services Canada
Hull, Quebec, Canada K1A 0S9

Catalogue No. FT4-156
ISBN 0-660-10268-4

Canada: \$4.75
Other countries: \$ 5.70

Price subject to change without notice.

THE TARIFF BOARD

CHAIRMAN

Pamela A. McDougall

FIRST VICE-CHAIRMAN

G. Deachman

SECOND VICE-CHAIRMAN

J. Lupien

MEMBERS

A. C. Kilbank

K. C. Martin

J. Bertrand

DIRECTOR OF RESEARCH

W. L. Posthumus

PANEL FOR THIS INQUIRY

Pamela A. McDougall

G. Deachman

J. Lupien

K. C. Martin

ECONOMISTS

Dr. P. J. Bowden

H. D. McCree

A. Y. Renaud

Ottawa

K1A 0G7

TABLE OF CONTENTS

Page

INTRODUCTION

Terms of Reference	1
Scope and Method of Inquiry	3

SOME GENERAL BACKGROUND CONSIDERATIONS

Economic and Social Background	7
Tariff Matters	9
Related Regulations and Agreements	10
Schedule "C"	10
Cultural Property Act	11
Florence Agreement	12
Brussels Tariff Nomenclature	12
Sales Tax	12

ANTIQUES AND COLLECTIBLES: GENERAL AGE ISSUE

Tariff Provisions	15
Proof of Age	16
Submissions	17
Conclusions and Recommendations	19

OBSOLETE AND MODERN COLLECTIBLES

General Considerations	21
Coins, Medals, Trophies, Prizes	23
Philatelic Collectibles, Equipment and Literature	24
Trophies of War and Military Collectibles	26
Automobiles, Parts and Equipment	27
Vintage Radios and Gramophones; Gramophone Records	29
Photographic Apparatus; Motion Pictures and Other Photographic Images	31
Beer and Coca-Cola Collectibles	33
Handmade Articles	33
Dolls and Miniatures	34
Limited Editions	36
Art Glass including Paperweights	37
Other Collectibles	39
Other Matters	41
Tariffs or Quotas on Imported Works of Art	41
Repatriation of Canadian Goods	42
Consistency of Administration	43

TABLE OF CONTENTS (cont.)

	<u>Page</u>
HOBBY EQUIPMENT	
General Considerations	45
Models	48
Live Steamers	49
Model Railroad Equipment	49
Model Aircraft	50
Radio Control Equipment	50
Model Rockets and Rocket Engines	50
Other Models	51
Model Engines	51
Summary and Conclusions	52
Recommendations	53
Equipment for Handicrafts and Related Activities	54
General Crafts	54
Gem and Mineral Collecting and Crafting	55
Other Handicrafts	56
Looms	56
Needlepoint Frames	57
Pottery Supplies	57
Artists' Supplies	57
Marquetry	57
Radio Apparatus	57
Amateur Radio Equipment	57
General Radio Service Equipment	60
Short Wave Radio Receivers	61
Weaponry	61
Equipment for Outdoor Recreational Activities	64
Scuba Diving Equipment	64
Parachute Devices	69
Mountain Climbing Equipment	70
Equipment for International Amateur Athletes	71
Other Sports Equipment	73
Archery	73
Football	73
Other Hobby Equipment	74
Astronomical Equipment	74
Chess Time Recorders	75
Pigeon Racing Equipment	76
Billiard Tables	77
Musical Instruments	78

TABLE OF CONTENTS (concl.)

	<u>Page</u>
SUMMARY OF RECOMMENDATIONS	
Schedule of Recommendations	79

APPENDICES

1. Reference No. 156: Interested Parties	89
2. Imports Under the Specifically Referred Tariff Items	101
3. Some Considerations Affecting Hobby Equipment Prices in Canada	107

INTRODUCTION

Terms of Reference

The text of the letter from the Minister of Finance, dated June 16, 1977, directing the Tariff Board to conduct an inquiry respecting antiques, collectibles and hobby equipment, is as follows:

"I have received numerous representations in recent years for the duty-free entry of a number of products which are of special interest to collectors and hobbyists.

For example, representations have been made in recent years for the duty-free entry of the following goods:

- photographs over 10 years of age
- records and films for collections
- bottles for collections
- vintage automobiles and parts for such automobiles
- limited edition ceramics, figurines and other such artifacts
- telegraph pole insulators
- player piano rolls
- vintage bicycles
- model railroad equipment
- amateur radio equipment
- model aircraft and engines therefor
- remote control equipment for model aircraft
- needlepoint frames
- scuba diving equipment
- primers and gun powder for rifles
- shell loading equipment
- parachutes
- mountain climbing equipment

For the most part, these goods are not currently available from production in Canada, whether because of their antiquity or for other reasons.

Certain collectors' items, such as coins and stamps, are already duty-free. Duty-free entry has also been allowed for many years for antiquities produced more than 100 years prior to the date of importation. Many representations have suggested a lower age limit for specific articles which become collectors' items before they are 100 years old; indeed, some goods are produced specifically for sale to collectors. Although the same age limit may not be suitable for all such products, I felt that the 100-year age requirement placed an undue burden on collectors of antiques and that some immediate relief was warranted. I therefore proposed an amendment to tariff item 69315-1 in my

recent budget to accord free entry to articles produced more than 50 years prior to importation. The Board should consider whether there is merit in reducing this age limit further for certain articles or increasing it for others.

Many hobbyists who import their equipment because it is not produced in Canada consider the tariff an unnecessary tax on their activities. Moreover, hobbyists who use equipment readily available from Canadian sources may be paying prices which reflect the tariff. The basic question to be resolved, therefore, is whether special tariff treatment should be accorded to any hobby equipment. I would stress that in speaking of hobby equipment I am not referring to what is generally looked on as sports equipment, e.g. skis, golf clubs, hockey equipment, fishing and hunting gear, etc.

In view of the wide range of goods involved, and the varying interests of collectors and hobbyists, I believe that a public hearing in which the interested parties could participate to the fullest extent possible would be most helpful in reviewing the existing duty-free provisions and in establishing whether there is any merit in making other specific provisions in the Customs Tariff for antiques, collectibles and hobby equipment.

I, therefore, direct the Tariff Board to make a study and report under section 4(2) of the Tariff Board Act on tariff items 69200-1, 69210-1, 69315-1 and to consider any of the prohibitory provisions of Schedule C to the Customs Tariff which may be relevant to the Board's study. The Board may also consider any other tariff items which may be pertinent to its review.

If the Board's study should indicate that amendments to the Customs Tariff are desirable, I would request that the Board include in its report recommendations regarding such amendments."

This direction from the Minister has been designated as Reference No. 156.

The three tariff items referred to in the Minister's letter are as follows:

<u>Tariff Item</u> ⁽¹⁾	<u>Description of Goods</u>
69200-1	<i>Coins or medals for collections; postage stamps; medals and other articles, which have been bestowed as trophies or prizes and received and accepted as honorary distinctions, or which have been donated by persons or organizations</i>

(1) The rate of duty under all four tariffs is Free. The G.P.T. Free rate applies from 1/7/74 to 30/6/84.

abroad for such purposes; trophy cups and other prizes (not usual merchantable commodities) won abroad in bona fide competitions, or donated by persons or organizations abroad for such purposes in Canada. The foregoing not to include medals, trophies or prizes which are regularly presented by organizations or business companies to their members, employees or representatives.

69210-1 *Trophies of war, being arms, military stores, munitions of war and other articles, which are to be retained for use as bona fide trophies under such regulations as the Minister may prescribe.*

No article admitted under this item shall be sold or disposed of for use other than as a bona fide trophy without payment of duty.

Any article before disposal thereof may be reduced to scrap and valued and rated for duty accordingly.

69315-1 *Articles (other than spirits or wines) produced more than fifty years prior to the date of importation, under such regulations, including proof of age, as may be prescribed by the Minister.*

A review of the changes effected over the years in the coverage and wording of these tariff items will be found elsewhere.⁽¹⁾

Scope and Method of Inquiry

In addition to the aforementioned tariff items there are very many others which fall within the scope of this reference. Almost anything which is durable can be collected and is thus a subject of potential interest. However, while tariff item 69315-1 provides for the duty-free entry of any article over 50 years of age and Schedule "A" also accords a similar privilege to original paintings and suchlike works of modern art,⁽²⁾ item 69200-1 (coins, medals and postage stamps) is the only one in the entire *Customs Tariff* which caters directly to the interests of private collectors of articles of whatever age.⁽³⁾ Similarly, there are no tariff items which are specific to hobby equipment, although there are potentially thousands of articles, from nuts and bolts to airplanes, which can conceivably be categorized under this head.

(1) Tariff Board, Reference No. 156. *Antiques, Collectibles and Hobby Equipment*. Background No. 1, March 1, 1978. Appendix 2.

(2) See *infra*, p. 22.

(3) As administered, tariff item 69210-1 does not permit collectors and dealers *per se* to import trophies of war (see *infra*, p. 26).

Initially, therefore, the Board was confronted with an area of inquiry of extensive but unknown dimensions, very largely undefined in terms of the existing *Customs Tariff*. It was apparent to the Board that unless the terms "antiques", "collectibles" and "hobby equipment" could be defined adequately for customs administration purposes, special treatment for these goods on a broad base would be extremely difficult, if not impossible, to administer effectively. At the same time, the lack of any clear-cut and generally-accepted definitions of these key terms underlined that any attempt to circumscribe the area of study would be essentially arbitrary and probably controversial. Accordingly, the Board decided at an early stage to make no attempt either to rule upon the meaning of the terms at issue or to set limits to the goods to be addressed during the course of the inquiry beyond those limits established by the Minister in his letter of reference. Instead, the Board decided to depend upon interested organizations and individuals to present their case for or against special treatment, both on a specific commodity basis and, hopefully, from a broader standpoint.

The Board has been asked to reflect upon the eligibility of a range of broadly-defined commodities for "special tariff treatment." The most obvious form of such treatment is duty-free entry; however, the Board has not interpreted its terms of reference as precluding it from recommending the reduction, as opposed to the elimination, of import duties where this might be thought proper. On the other hand, the tenor of the ministerial directive has seemed to the Board to rule out any increases in duty in relation to existing rates, or the imposition of tariffs on commodities presently allowed free entry.

In view of the indefinite boundaries of the investigation and the large body of unidentified individuals and organizations having a potential interest therein, the Board decided that special efforts should be made to publicize the existence of the reference. As a first step, preliminary notices of inquiry were placed in the major national and local newspapers, as well as in the *Canada Gazette*, inviting suggestions respecting the scope and definition of the principal areas of investigation and the structure of the agenda for the public hearings. Organizations or individuals having views on these matters, or wishing to be kept informed, were invited to notify the Board. Those responding were sent copies of background material (hereinafter referred to as *Background No. 1*), which included the letter of reference, details of the tariff items in question, a discussion of the pertinent tariff issues, and related documentary and statistical matter. Subsequently, these respondents were directly notified regarding the proposed arrangements for public hearings and invited to submit written briefs. At the same time, attempts were made to reach a wider community through notices posted in the national and local press.

In all, the Board was contacted by almost 800 individuals, associations and firms, some requesting information, others making observations or submitting briefs. An analysis of this response indicated widespread interest in the subject area of the inquiry throughout the country, hobbyists and their associations being especially prominent. Accordingly, the Board decided that the public hearings should not be confined to Ottawa, as custom has generally

determined, but should also be held in other parts of the country - Moncton, Vancouver, Edmonton and Toronto being selected for that purpose on the basis of the geographical distribution of probable participants in the proceedings. These trips also afforded an opportunity for Board Members and research economists to visit local manufacturers and retailers whose interest in the goods under inquiry had been established.

The hearings, held between May 29, 1978 and November 15, 1978, were well publicized and, in general, well attended. In order to encourage an open debate of the issues, the Board sought to maintain an informal atmosphere and organized round table discussions wherever possible. Numerous presentations were heard by the Board. These were generally made without the aid of legal counsel and their high standard reflected the dedication and deep personal commitment of the many individuals taking the time and trouble to appear before the Board. A listing of the organizations and individuals taking part in the proceedings, or otherwise making submissions to the Board, will be found in Appendix 1.

Also included in this appendix are the names of 113 dealers in antiques and/or collectibles responding to a survey questionnaire distributed by the Board regarding the nature of their trade and their attitudes respecting duty-free importation under tariff item 69315-1. The Board wishes to thank these respondents - and, indeed, all other interested individuals, associations and firms - for their participation in this inquiry.

SOME GENERAL BACKGROUND CONSIDERATIONS

Economic and Social Background

In spite of the economic difficulties which have plagued the late 1970's, the western world of today presents a picture of material affluence unimagined fifty, or even twenty-five, years ago. A vastly more plentiful supply of consumer products and increased amounts of leisure have served to transform both attitudes to life and living patterns. Part of this transformation has occurred in consequence of the unprecedented spate of technological innovations in recent decades, while part has been related to a marked increase in the female labour force participation rate. The latter development, in turn, has been facilitated by the greatly expanded marketing of "convenience foods" and labour-saving home appliances, the shift in the balance of economic activities in industrialized countries towards the predominantly female-employing light manufacturing and service sectors, and the changing attitudes of society towards family life and the status of women.

One consequence of the revolutionary changes which have taken place in the economic and social *milieux* since the end of the Second World War has been the development of a widespread interest in symbols and expressions of past ways of life. The collecting of old, scarce or beautiful things, once the exclusive province of the wealthy, has by virtue of increased family incomes, on the one hand, and the acceptance of less exacting standards, on the other, been brought within the reach of most ordinary citizens. Surprisingly, perhaps, this hankering after the simplicity, oddity or elegance of former times, seems, according to statements made before the Board, to have received its strongest impetus among the young and early middle-aged.

At the same time, worldwide inflationary pressures in recent years have served to underline the merits of collecting as an investment activity. Stamp collecting, like the acquisition of fine antiques and works of art, has always provided the knowledgeable, discerning - and lucky - with a source of capital gains, although to the enthusiast this benefit, while welcome, may be perceived as a peripheral consideration. Similarly, as the Board was informed, the purchase and renovation of an antique or vintage car enables a family to build up its equity while enjoying a common interest.

Hobbies are not, of course, a product of the modern age, even though, with advances in technology, they have tended to become more sophisticated. For centuries the production of handicrafts has provided country dwellers with a means of passing time, as well as making money, while civilized man has always found relaxation by engaging in intellectually stimulating or creative pastimes. In modern times the dichotomy between work and leisure has become less blurred than in the past as life has become more urbanized and recreational activities have become more formalized and elaborate. At the same time, with the advent of paid annual holidays and the decline in the average length of the working week, only one hour in four over the year as a whole, is nowadays actually spent

by North American workers on the job. People are retiring at an earlier age. It is not surprising, therefore, that the use of leisure is seen by many sociologists as providing modern affluent societies with their greatest challenge. Hobbyists, even more than collectors, appear better prepared than most individuals to cope with this challenge, and are responding to it in a great variety of ways.

Statistics on hobbyists in Canada are not readily available but such data as have come to the Board's attention point to a large and rapidly growing hobbyist population. Sedentary activities, such as stamp collecting and chess (with an estimated one million devotees each) still probably lead the field, while there are large numbers of amateur radio enthusiasts and modellers of all kinds. National and local associations representing these and most other such activities generally reported increasing memberships to the Board. Growth of interest and participation, however, appears to have been especially marked in relation to outdoor pursuits such as scuba diving, mountaineering and sport parachuting. At the end of 1978 there were, for example, some 90 sport parachuting clubs in Canada and an estimated 250,000 scuba divers. Such outdoor activities, not surprisingly, exercise their main appeal in relation to the young. Thus, the Board was informed that the purchasers of scuba diving equipment are mainly in the 17-23 age group.

In the sphere of antiques and collectibles the growth of interest may be evidenced, in the first place, by the astonishing proliferation of antique and vintage car clubs throughout Canada since the first such association - the Historical Automobile Society of Canada - was founded in Toronto in 1952. These clubs can now tally a combined membership of several thousands. At the retail trade level, exactly half of the concerns dealing in antiques and collectibles which responded to the Board's questionnaire, indicated 1970 or later as their date of establishment. As a corollary of this rash of recent enterprise, only 12 per cent of the respondent undertakings had annual sales of \$500,000 or over.

In view of its comparatively recent settlement and the strong resource orientation of early economic development, Canada is unable to boast of any large supply of domestically-produced fine antiques or collectors' pieces. Consequently, in spite of the rising interest in "Canadiana", a very substantial proportion of the antiques and collectibles purchased by Canadians originate elsewhere, mainly in the United Kingdom and United States. It is impossible to attach a figure to this proportion for the trade as a whole, but among the dealers responding to the Board's questionnaire, approximately three-quarters indicated the sale of some imported goods, while almost one-half reported that transactions in such goods comprised the larger part of their trade. In the case of hobby equipment, it is again impossible, because of the arrangement of the pertinent statistics, to indicate the precise degree of reliance upon imported articles. However, it is clear, at least as far as the areas reviewed by the Board are concerned, that very few items of hobby equipment are presently made in any quantity in Canada.

Thus, in the case of each of the three major categories of goods falling within the purview of this reference, a large part of the domestic market is apparently being supplied from abroad and, in consequence, purchasers of these products in recent years have been particularly adversely affected by the decline in the value of the Canadian dollar in international exchange transactions. Even without this factor, however, the rise in the worldwide demand for antiques and collectibles, allied to the more general inflationary pressures, would have forced the prices of such articles in an upward direction. In the case of hobby equipment, the prevalent tendency for prices to rise has seemingly been mitigated in some instances (e.g. in the radio and modelling fields) by decreases in the real costs of production. However, the increased sophistication of much of the electronic equipment which is being used nowadays for hobby purposes has meant that, even in these instances, the cost of leisure activities has generally tended to rise. These costs can be substantial. For example, the Board was informed that the total equipment costs of a basic operational amateur radio station in 1978 ranged between \$1,400 and \$2,000 in Canadian funds, duty and sales tax paid. Costs of the same order of magnitude were cited in relation to scuba diving equipment.

Tariff Matters

The Board was provided with many comparisons of retail prices in Canada and the United States with respect to hobby goods and collectible items. These comparisons generally indicated that - after allowing for import duties (ranging up to 25 p.c.), federal sales tax (at the then existing rate of 12 p.c.), provincial sales tax (where applicable), freight charges and distributor mark-ups - prices in Canada were generally 30 to 50 per cent higher than in the United States at ruling rates of currency exchange. The principal theme of submissions made to the Board has been for the narrowing of such price differentials through the reduction or elimination of duties.

The introduction of free entry or some other special treatment for currently dutiable goods would obviously result in a loss of revenue to the Crown and the transfer of some measure of tax burden to the general taxpayer. The likely dollar value of such a loss is impossible to estimate with any degree of precision given the aggregated form of much of the pertinent statistical data. However, it may be noted that in 1978 total imports under the three tariff items specifically referred to the Board in connection with this reference had an estimated value of \$34 million. If those imports had been dutiable at the average rate of duty applicable to Canadian imports of furniture, silverware or jewellery, for example, they would have yielded from \$5 to \$8 million in customs revenue. The current crop of requests for duty exemption, if granted, would add very substantially to this estimate.

The issue of possible loss of revenue to the Crown is one of a number of factors which the Board must perforce consider in framing its recommendations. Since duty relief is a privilege, insofar as it is not the general rule, it has seemed important to the Board to establish some philosophical justification for privileged tariff treatment. The onus has been upon those appearing before the

Board to demonstrate the special contribution of their activity - in cultural, educational, social, economic or other terms - to Canadian society. At the same time, the Board has not taken the position that apparently deserving activities or groups should automatically qualify for tariff relief. In the first place, the reduction or elimination of import duties may not be the most appropriate means of aiding a particular segment of Canadian society. The government has at its command a variety of financial assistance programs providing grants, subsidies, loans or tax relief to different sections of the community and sectors of the economy. Secondly, tariff changes cannot be considered solely from the standpoint of domestic consumers and distributors of imported goods. Reasonable protection for domestic industry has long been a central tenet of tariff policy. It remains so in the present instance, although in view of the notable lack of Canadian production of most of the pertinent commodities, it is not a principle which has needed to be much in evidence.

Finally, there is the issue of customs administration to take into account. Unless articles can be adequately defined and differentiated in the *Customs Tariff*, it may not prove feasible to make them subject to special duty provisions, whatever the merits of the case otherwise. In some instances, it may be possible to get around this difficulty through the creation of end-use or end-user tariff items. However, this is not a solution which has generally recommended itself to the Board on account of the cost or impracticality of policing the imported goods to ensure that after entry and making their way through the merchandizing chain, they are, in fact, put to the specified end-use or remain with the declared end-user.

Related Regulations and Agreements

Customs duties are set out in Schedule "A" to the *Customs Tariff*. The impact of this schedule on the goods under reference, whether domestic or imported, is discussed throughout this report. However, there are other Canadian regulations which also have a bearing on the subject.

Schedule "C"

Under Schedule "C" to the *Customs Tariff*, the importation into Canada of certain goods is prohibited. Many of the items in this schedule indicate circumstances under which the prohibition is or can be waived.

In his letter of reference the Minister of Finance directed the Board to consider any of the prohibitory provisions of Schedule "C" which might be relevant to its study. Some discussion was included in Appendix 4 to *Background No. 1*, which was accompanied by a copy of Schedule "C". To the extent that they apply to collectibles or hobby equipment, all the items are relevant to this reference but a good many of them are unlikely ever to come into play. The discussion which follows is, therefore, limited to those items which were drawn to the Board's attention and those where the Board feels there might be some relevance.

Under item 99215-1, the importation is prohibited of used or second-hand automobiles and motor vehicles of all kinds, manufactured prior to the calendar year in which importation into Canada is sought to be made. Among the automobiles exempted from this prohibition are those imported by settlers, diplomats or tourists, those left by bequest to residents of Canada, those purchased on or before the 1st June, 1931 by consumers for their own use, and those exempted from the provisions of the item by a regulation of the Governor-in-Council in any particular case or class of cases. The Governor-in-Council has waived the prohibition with respect to cars that are not less than 15 years old when imported as antiques or collectors' items (the terms "antiques" and "collectors' items" are not further defined). This prohibition and the exemptions therefrom are further discussed under the subject of automobiles as collectibles.

Item 99218-1 prohibits the importation of used or second-hand periodical publications except those sent gratis to Canada for charitable purposes, sent to persons in Canada as casual donations by friends abroad, imported for personal or institutional use and not for re-sale, or imported by or for paper mills for use as stock in the manufacture of paper. Further discussion of this prohibition will be found in the individual collectibles section in connection with a submission respecting second-hand periodicals.⁽¹⁾

Coin collectors might well be affected by the provisions of items 99203-1, which prohibits the importation of base or counterfeit coin, and 99208-1, which prohibits the importation of metallic trading checks in circular form, unless in any particular case or class of cases exempted from this regulation by the Governor-in-Council. However, no representations were made to the Board with respect to these goods.

Similarly, those interested in firearms might be affected by the provisions of item 99220-1, prohibiting the importation of certain offensive weapons. Used or second-hand aircraft, other than those specifically exempt from the provisions of the item, are prohibited importation under item 99216-1 unless they have been exempted from the provisions of the item by a regulation of the Governor-in-Council. Aircraft for personal use have been so exempted. Posters and hand-bills depicting scenes of crime or violence are prohibited importation, without exception, under item 99210-1. As no requests were made for any exceptions to these prohibitions, the Board has not given them any further consideration.

Cultural Property Act

Under the *Cultural Property Export and Import Act of 1975*, the importation into Canada from any foreign state that is a party to a cultural property agreement, of any object specifically designated by that state as

(1) *Infra*, p. 41.

"cultural property", being of importance for archeology, pre-history, history, literature, art or science, is prohibited. The *Act* similarly prohibits the export of such goods from Canada. Further details may be found in Appendix 6 to *Background No. 1*. This *Act* has the effect of restricting the importation of collectibles as it is no longer possible to import a collectible, considered to be cultural property, from a foreign country with which Canada has an agreement.

Florence Agreement

A more general agreement on international trade in collectibles is the *Agreement on the Importation of Educational, Scientific and Cultural Materials*, known as the *Florence Agreement*, drawn up under the auspices of the United Nations Educational, Scientific and Cultural Organization at its General Conference held at Florence, Italy, in 1950. Under this agreement the countries who are parties thereto have agreed not to apply customs duties or other charges on, or in connection with, the importation of books and certain other publications and educational, scientific and cultural materials. The latter category is stated specifically to include works of art and collectors' pieces of an educational, scientific or cultural character, including antiques in excess of 100 years old. Canada has not yet become a party to this agreement.

Brussels Tariff Nomenclature

In *Background No. 1*, Appendix 7 sets forth information regarding the customs tariffs of other countries insofar as they are concerned with antiques, collectibles and hobby equipment. It also incorporates the relevant provisions of the *Brussels Tariff Nomenclature*. The discussion can be summarized by saying that while most, if not all, countries make special provisions for antiques, usually defined as goods more than 100 years old, and stamps, coins and art work, there are virtually no special provisions for other collectibles or hobby equipment, although a few tariffs contain provisions which by their nature must apply primarily to such goods.

Sales Tax

Under the terms of the *Excise Tax Act*, goods produced in Canada or imported into this country are subject to a federal sales tax, unless specifically exempted therefrom. In the case of domestically produced goods, the tax is levied on the manufacturer's selling price and is paid when the goods are sold either by the manufacturer or the wholesaler. Therefore, antiques and collectibles acquired on the second-hand market would not be subject to this tax at the time of purchase. Imported goods, however, are taxable on the duty-paid value at time of importation and the tax would apply to imported second-hand goods not otherwise exempted. Thus, although goods classifiable under the tariff items specifically referred to the Board, including articles more than

50 years old and certain other collectibles, are exempt from this tax, whether or not imported, other transactions relating to used collectibles would be taxable only when an importation is involved. On the other hand, new hobby equipment and modern collectibles would usually be taxable, whether domestic or imported. The rate of tax was reduced from 12 p.c. to 9 p.c. in the 1978 budget. Except in relation to certain obsolete collectibles, the Board does not propose any changes respecting the coverage of the sales tax.

Elsewhere in the *Excise Tax Act* there are provisions for certain excise taxes on such goods as jewellery and a few other products. While articles more than 50 years old are exempt from this tax, it is applicable in the case of certain other collectibles. A special tax is also levied on automobiles in excess of a certain weight; this tax is further discussed in the section of the report dealing with automobiles.

ANTIQUES AND COLLECTIBLES: GENERAL AGE ISSUE

Tariff Provisions

The Canadian *Customs Tariff* has long made some accommodation for the duty-free entry of antiquities, the *Revised Statutes of Canada* in 1886 containing a provision under tariff item 568 in the Schedule of Free Goods for "collections of antiquities". Initially, no attempt was made to delineate antiquities in terms of age - or otherwise.

Subsequent revisions of the tariff up to 1937 continued to confine the application of the pertinent provision to collections, as opposed to single articles. Moreover, between 1906 and 1937 even collections of antiquities could not be imported free of duty except by public museums, public libraries, universities, colleges or schools for use in these institutions. Quite clearly at this stage, the underlying motivation for concessionary treatment was a desire to promote knowledge and learning on the part of society at large; there was no intention of benefiting individuals in a private or business capacity.

In a restructuring of pertinent parts of the *Customs Tariff* in February 1937, certain new principles were introduced. In the first place, under tariff item 693(i) the concept of "collections of antiquities", with respect to imports by or on behalf of public institutions, was replaced by that of "articles". In consequence, subject to "regulations prescribed by the Minister", a public museum, for example, can now import duty free (under renumbered item 69305-1) any individual article for exhibition purposes, whether or not such an article is an antiquity and regardless of its age.

Secondly, in 1937, for the first time, duty-free entry, under tariff item 693 (iii), was permitted to antiquities (other than spirits or wines) imported by or on behalf of private individuals or business concerns. A companion item, number 693 (ii), made specific provision for violins, violas and violoncellos. In order to qualify for entry under either of these items, goods had to be at least 100 years old and had to be imported "under such regulations, including proof of antiquity", as the Minister of National Revenue might prescribe.

Free entry for "antiques" over 100 years old would appear to be closely connected with international acceptance of the concept of the free movement across borders of works of art and other cultural manifestations. It is clear, however, that the broadening of these free entry provisions to benefit individuals conferred a special privilege, whether intentionally or not, upon those Canadians who could afford to buy or deal in fine furniture, quality chinaware or other comparatively expensive handmade objects.

In May 1948, the 100-year age provision in tariff item 693 (iii) was changed in favour of a fixed base-date concept. It was now required that goods should have been produced prior to January 1, 1847 in order to qualify for preferential treatment as antiquities. The notion of a fixed cut-off point

clearly has some appeal if the purpose is to distinguish between articles on the basis of whether they are handcrafted (to be admitted duty free) or machine-made (not so privileged). From this standpoint, 1847 might seem to provide as meaningful a dividing line as any other with respect to the techniques employed in the production of furniture and certain other types of merchandise entering the antiques trade. It will be evident, however, that, given the considerable industrial differences in the pace of technological change, neither 1847 nor any other single reference point would fit every production situation equally well.

From a practical business standpoint, a more serious snag implicit in the application of a fixed base-year criterion stems from the fact that the supply of eligible merchandise is inelastic. No new items (other than reproductions) can be created. Sooner or later, therefore, the volume of newly-unearthed pieces coming onto the market must dwindle, with adverse consequences for sections of the trade. It would appear that this stage had been reached by the mid-1960's. Accordingly, in June 1967, in line with a corresponding change in the United States tariff, the fixed base-date concept with respect to antique goods was dropped, and the nomenclature of tariff item 69315-1 (as 693 (iii) was renumbered in 1965) reverted to what it had been prior to the modification of May, 1948.

No further changes were made until April 1, 1977, when item 69315-1 was amended to its present form. The qualifying age of merchandise for admission under this item was lowered to 50 years because, in the words of the Minister's letter of reference, it was "felt that the 100-year age requirement placed an undue burden on collectors of antiques and that some immediate relief was warranted." In line with this change, the word "antiquities" in the commodity description was replaced by the word "articles". Finally, tariff item 69310-1 (formerly item 693 (ii)), pertaining to violins, violas and violoncellos, was struck out and the goods included in item 69315-1.

Proof of Age

Before the budgetary changes of April 1, 1977, imports under tariff item 69315-1 were restricted to antiquities of an age 100 years or more, duly certified as such. Procedures with regard to certification were stipulated in the "Antiquities Import Regulations", published by Revenue Canada, Customs and Excise, in *Memorandum D49-7*, dated December 23, 1969. Corresponding regulations pertaining to the importation of antique violins etc., under tariff item 69310-1 were set out in companion *Memorandum D49-6*.

Under these regulations, attestation as to age was required both from the owner/vendor of the goods and from "a responsible executive official of (a) the national institution that is responsible for the encouragement of the applied arts in the country of exportation of the antiquity, or (b) an association of dealers in antiques or in antiques and works of art that is listed in Schedule 'B' hereto". On examination, Schedule 'B' is revealed as a listing of the names and addresses of national associations of antique dealers in six countries - viz:

Britain, United States, France, Belgium, The Netherlands, and Switzerland. According to information supplied to the Board, this reliance upon foreign experts was not to the liking of all importers, and alternative certification arrangements were worked out between Customs and Excise and the Canadian Antique Dealers Association, whereby attestation by a member of the latter organization or some other domestic expert became officially acceptable as proof of age.

Following the changes in nomenclature introduced into tariff item 69315-1 on April 1, 1977, the aforementioned age certification procedures (whether involving foreign experts or C.A.D.A. members) have seemingly been set aside. However, in accordance with the directions contained in an internal memorandum, customs officers are required to ensure that all articles proposed for duty-free entry under item 69315-1 are accompanied by some proof of age. Such proof may take the form of an illustration or description in an old catalogue or it may consist of some other dated record identifying product characteristics, manufacturer's trade mark, or serial number etc. In this regard, customs officers have been instructed not to accept a statement from the vendor or exporter as constituting proof of age, such statements having proved to be "self-serving".

Submissions

Most representations to the Board with respect to the *general* age issue emanated from those engaged in the business of dealing in antiques and collectibles. Among these (including respondents to the Board's questionnaire survey) most submissions seemed to favour the retention of the 50-year age provision. A number of dealers stated that the amended age rule had been of great benefit to their trade. Some went so far as to claim that the lower age limit, coupled with the possibilities thereby offered for importing goods in shipping containers, was a major factor in enabling them to stay in business. From an aesthetic standpoint it was represented that many of the articles made in the early twentieth century far surpass their Victorian counterparts. Substantial dealers such as Alan Lever of Vancouver and Robert Deveau of Toronto expressed satisfaction with the new age arrangement. One individual collector reminded the Board that only a very limited number of people can afford to buy articles more than 100 years old; the 50-year provision, by promoting access to a wider selection of collectible items, has helped to bring the pleasures of collecting within the purview and competence of a far larger Canadian public.

Principal opposition to the tariff amendment of April 1, 1977, came from the Canadian Antique Dealers Association, an organization founded in 1967 and comprising a select group of some 60 - 70 dealers, whose trade (according to a by-law of the Association) is mainly in goods made prior to 1850, if of European origin, or before 1867, if "Canadiana".

In essence, the position of the C.A.D.A. was that the change to the 50-year rule in tariff item 69315-1 had caused the country to be flooded with

second-hand furniture of little merit and reproductions of antiques. These goods were often represented to the public as being genuine antique items. This "lowering of standards and quality" had led to a loss of confidence on the part of the buying public, which, in turn, had adversely affected the business of "legitimate" antique dealers. Accordingly, the Association's submission contained two main requests: first, that the tariff treatment of antiques should be completely separate from that of collectibles or other articles, and secondly, that the cut-off date for entry under an antiques tariff classification should revert to 100 years, "which is the internationally recognized definition." Essentially the same points as these were put forward by Mr. E.D.B. Norwood, Secretary of the Victoria Antique Dealers Association, while several other antiques experts indicated general agreement with the 100-year stance.

At the other extreme, the Wild Rose Antique Bottle Collectors of Edmonton asked that the existing age limit of 50 years be further reduced to 25 years on the ground that nearly all items over 25 years of age "are now considered as being collectors' items." Several respondents to the Board's questionnaire singled out specific categories of merchandise or period pieces for other than a 50- or 100-year age provision, but the general attitude with respect to such niceties was that customs administration in this area is already sufficiently difficult without the introduction of such additional complications. There was no plea to the Board for a return to the fixed base-date concept.

There were various allegations concerning the misuse and mal-administration of tariff item 69315-1 under both the former and existing proof-of-age procedures. With respect to certification under the 100-year rule, the customs official who had been most closely involved with policy in this matter, stated: "There were innumerable abuses on certificates being issued, the nature of the certificate, what kind of information they detailed and dealing with the practicality of clearing a container in northern Nova Scotia or something like that."⁽¹⁾ The same official gave it as his view that the British Antique Dealers Association "will issue certificates as it pleases to support their members."⁽²⁾ Testimony heard by the Board indicated certification by Canadian antiques experts also on occasion left much to be desired. In some cases the task of authenticating goods might be undertaken by a business rival, who would thereby acquire access to confidential information regarding the number of items purchased, sources of supply and prices paid. In other cases, and more especially in relation to goods shipped to destinations outside the main urban centres, the task of certification might have to be entrusted to an expert with a very different field of expertise from that indicated by the consignment. Moreover, the process of customs clearance might take a considerable time, while the cost of goods would be enhanced by the appraiser's standard fee and travel expenses, if any.

Present administrative arrangements with respect to tariff item 69315-1 also came in for criticism. Several of the experts, including Mr. W. Jackson of the Canadian Antique Dealers Association, claimed that the lowering

(1) *Reference No. 156. Transcript of Public Hearing, May 29, 1978, p. 99.*

(2) *Ibid, p. 107.*

of the age requirement had made the process of authentication more difficult: a viewpoint which was contested by various other witnesses, who pointed to the reservoir of knowledge and information available in extant catalogues and personal memories.

It was generally agreed that examining customs officers seldom possessed the necessary qualifications and expertise to enable them to make well-informed judgements in this area, while considerable variations were reported respecting the implementation of the regulations. Thus, whereas one importer-dealer alleged that he had been forced to pay duty on an entire consignment because of one unsubstantiated item, another importer claimed that no proof of age (other than the date indicated on the invoice) had been required of him and that only one container in three was normally opened for customs examination purposes.

In spite of these reported experiences, the Board was not urged to recommend the reinstatement of age certification arrangements. Instead, attention was focused on two other possibilities for improving the administration of the pertinent tariff provisions: first, it was suggested that special education and training in the general area of concern should be provided for selected customs officers (it was, however, questioned whether short courses would be of much use); secondly, it was proposed by Mr. W. Jackson of the C.A.D.A. that a number of larger urban centres should be designated as ports of entry for antiques (thus, as was pointed out, the provision of expertise would be facilitated but at the expense of small-town dealers).

Conclusions and Recommendations

It is too early yet to determine with any precision what changes in trade may have occurred as a result of the tariff amendment of April 1, 1977. For some years now the Canadian market for antiques and collectibles has been growing steadily, if not spectacularly, and, as indicated in Appendix 2, much of this growth has been met through imports under tariff item 69315-1, as well as under various other tariff provisions. Reflecting world demand conditions, fine antiques have become increasingly scarce and expensive: a factor which has undoubtedly encouraged the growing body of Canadians with the collecting urge to look at other, somewhat more mundane, articles to satisfy their acquisitive instincts. This situation must have existed some considerable time before the tariff changes were made. Indeed, this much is clear from the Minister's letter. In consequence, even though imports under tariff item 69315-1 are rising (from \$14.4 m. in 1976 to \$28.0 m. in 1978) and business is still on an uptrend, the dealers in fine antiques, as represented by the Canadian Antique Dealers Association, are not apparently getting a proportionate share of the increased market.

The Board is not in a position to judge whether or not, in the words of the C.A.D.A. brief, "Canada has now become a dumping ground for all

the junk in the world." However, no hard evidence was placed before the Board to indicate the adverse effects on dealers' prices or business turnover resulting from this alleged "flood" of goods. Nor was the Board provided with any hard facts in support of the contention that the misrepresentation of such goods to the buying public had become rife.

In sum, a case that the 50-year rule is harmful to Canadian economic interests does not appear to have been made. No Canadian manufacturers of furniture or jewellery, for example, submitted that their activities had been damaged thereby, while many small dealers in antiques and collectibles, as well as some of the larger concerns in this sphere, are evidently pleased by the measure. From the consumer's standpoint, the collector who is interested in turn-of-the-century pieces is now able to obtain these at the same duty advantage as his wealthier counterpart whose interests lie in older works of art. Similarly, the collector of "collectibles" is also better off since his particular interests are more likely to have a 50 - 100 year time frame.

As to the argument that the lowered age requirement has given rise to increased misrepresentation of goods, the Board is of the view that the *Customs Tariff* and its administration by the Department of National Revenue cannot be the instrument for policing the antiques trade in Canada. A customs tariff clearance under item 69315-1 is not a measure of authenticity or of worth but solely a judgement as to date of production. In the Board's view, the policing of the antiques business has to be done elsewhere, by the trade and by those responsible for protecting consumer interests, including the consumers themselves.

Evidence heard by the Board indicated that the age certification process applied in the past had not worked well. Present proof-of-age procedures would seem to provide less opportunity for abuse through the pursuit of private self-interest, although seemingly placing a heavier burden on the shoulders of customs officials. The Board is not prepared to make any recommendations with respect to the education and training of such officials, believing this to be an internal departmental matter. On a related question, the Board does not support the notion of limited ports of entry for goods currently classifiable under tariff item 69315-1 as this would put dealers outside the larger centres at a disadvantage.

The Board's principal recommendation with respect to the general age issue is that the wording, the 50-year qualification period, and the applicable free rate for tariff item 69315-1 remain unchanged.

OBSELETE AND MODERN COLLECTIBLES

GENERAL CONSIDERATIONS

The term "collectible" is broad enough to encompass virtually everything as any type of product might be the subject of a collection formed by one who is interested therein. Consequently, it is not surprising that the Board received submissions relating to a wide variety of collectibles, including both those which are of interest to a large number of people and some which obviously have very few devotees. There are also many collectibles which were not mentioned during the course of the public hearings on this reference. Generally speaking, however, collectibles can be divided into two categories: "obsolete" and "modern".

Obsolete collectibles consist of goods, generally machine-made, which have been rendered out-of-date by changes in taste, or which are no longer produced in the same form nor used for their original purpose, even though similar products may still be on the market. Frequently, such goods embody an historical record of a stage in the technological development of modern industrial society and are easily recognizable as being dated or out of fashion; as such, exhibited in museums, they may be of interest to people who have no desire to collect them personally.

Many obsolete goods acquired by present-day collectors are illustrative of developments in the fields of transportation and communication. There is an interest in both "hardware" articles such as vintage cars, bicycles, planes, wireless sets, juke boxes and photographic apparatus, and "software" items such as old films, photographs, posters, books, periodicals and discontinued records. Involvement with certain of the "hardware" products (for example, vintage automobiles and early radio receivers) often entails more activity than simple collecting; the collector may also be a hobbyist in that he seeks to repair and restore the equipment to its original state and to renew its usability. However, although the restored goods are still capable of being used for their original purpose, it is usually impractical to do so as a commercial proposition due to cost, lack of service, or the much greater effectiveness of their more modern counterparts.

In the case of certain items, the collectors may be interested in current as well as obsolete specimens. Such is the case, for example, with postage stamps and coins. In general, modern collectibles do not serve any useful purpose but in many cases cannot easily be distinguished from their functional counterparts. Examples are limited edition plates, spoons, jugs, etc., which are not normally used for the function for which they are named and designed but which do not differ in form from the ones so used. Many such goods are made specifically for collectors, often in so-called limited editions. The Board understands, however, that a "limited edition" often consists of the total number for which the intended manufacturer can obtain orders. While modern collectibles may in some instances exhibit artistic merit, they are often

expensive and may well be competitive with Canadian production or capable of being produced in Canada. It will be realized that some of the categories of goods falling in this general class, for example, paperweights, exist in both old and contemporary editions, both of which often form parts of the same collection. The older specimens may differ from the more modern products in design or materials used.

Certain collectibles are gathered not so much for themselves but for some use to which they can be put. Examples are miniature soldiers and other miniatures used in war-games, and muskets and related equipment used by black powder enthusiasts or by groups recreating historical regiments. In these instances the collectibles become, to all intents and purposes, hobby equipment. In the discussions which follow some of these are dealt with as collectibles and others as hobby equipment.

Since April 1, 1977, collectibles more than 50 years old have been admissible free of duty under tariff item 69315-1 and are specifically exempted from federal sales tax under Schedule III to the *Excise Tax Act*. Collectibles exempt from duty regardless of age include coins, medals and stamps and trophies of war, imported under tariff items 69200-1 and 69210-1 (both of which were specifically referred to the Board), articles imported for exhibit in such institutions as public museums, public libraries, universities, colleges or schools (tariff item 69305-1), and articles of artistic value such as sculptures and statuary (tariff items 69515-1 and 69516-1), paintings, engravings, etchings, drawings, etc., (tariff item 69520-1), and hand-woven tapestries (69525-1 and 69526-1). With the exception of items 69516-1 and 69526-1, these goods are also exempt from federal sales tax. Other collectibles are dutiable, at present, under the tariff items which apply to the same goods when imported for other purposes, and are usually subject to federal sales tax when imported by collectors. In the following discussions with respect to individual collectibles, references to existing rates of duty, unless otherwise specified, are to those which apply to goods not qualifying for free entry under the aforementioned provisions and not admissible under any other special provisions such as those for purchases abroad by returning Canadian residents.

The Board concluded early on in its hearings and research that "collectibles" are so diverse in their nature that it would be fruitless to try to devise a general tariff item covering their entry into Canada. The Board therefore proceeded by the *eo nomine* route, considering each proposal in this field on its merits and making specific nomenclature recommendations where these seemed justified. Essentially, the Board concluded as a result of this detailed examination that it should make no recommendations respecting special tariff treatment for modern collectibles and should recommend such special treatment only for a very limited range of obsolete collectibles which bring into play the skill of the collector in renewing and operating the goods in question.

COINS, MEDALS, TROPHIES, PRIZES

In addition to postage stamps, discussed separately in this report, tariff item 69200-1, specifically referred to the Board, applies to "coins or medals for collections" and to "medals and other articles, which have been bestowed as trophies or prizes and received and accepted as honorary distinctions, or which have been donated by persons or organizations abroad for such purposes; trophy cups and other prizes (not usual merchantable commodities) won abroad in *bona fide* competitions, or donated by persons or organizations abroad for such purposes in Canada. The foregoing not to include medals, trophies or prizes which are regularly presented by organizations or business companies to their members, employees or representatives."

The Board received no representation with respect to the medals, trophies or other similar goods mentioned in the second quotation above. It assumes, therefore, that this provision is satisfactory to those concerned and makes no recommendation for or against any change in the applicable wording or rates of duty. Coins, although a major collectible, were also not the subject of any representations but were often cited as a parallel case by collectors of other items who sought to have their field of interest placed on the same basis as that of numismatists.

The Board has no recommendation for any change in the provisions for coins.

One submission relating to medals is cited in the discussion of war memorabilia. Another relevant submission was received from Mr. Walter B. Herbert, Aylmer East, Quebec, a collector of art medallions. His specific interest from both an artistic and historical point of view is in the field of "Canadiana" - that is, in goods either illustrative of some aspect of Canadian life, culture or history or designed by Canadian artists - and in animal subjects. Many of the items must be imported as there are no comparable Canadian products. However, the Board notes that there are companies in Canada which do specialize in producing such goods.

In his letter to the Board, Mr. Herbert cited a number of varying experiences with Customs with respect to goods he has sought to import, and suggests that some definitions are required to distinguish "medals" from "manufacture of silver" or "manufacture of bronze". Goods placed in the latter categories are dutiable at rates of 22½ p.c. and 17½ p.c., M.F.N. respectively; they could also be subject to federal sales tax. Silverware is also subject to an excise tax. By contrast, coins and medals for collections are free of duty and exempt from federal sales tax, while other coins of metal issued under governmental authority are also duty free but, with some exceptions, are taxable.

Mr. Herbert cited particular problems with ingot-medallions which do not have any "commemorative factor" relating to an actual person or event or which are not circular in shape. He suggested that there is some inconsistency

in the treatment of such goods and that updated regulations are required to ensure realistic treatment of such products.

The Board concurs to the extent that it recommends that Revenue Canada, Customs and Excise, should consider issuing a definition as to what will be considered a medal for the purposes of tariff item 69200-1.

A somewhat similar submission was received from Mr. Norman E. Wells, Peterborough, Ont., on behalf of the Canadian Association of Wooden Money Collectors. Wood tokens are usually issued in a limited area on a promotional or commemorative basis. While there has been some Canadian production, the facilities in Canada are very limited in scope and most tokens with Canadian themes are produced in the United States. Canadian collectors are also interested in U.S. theme tokens and, as there are no Canadian dealers in wooden tokens, must also use U.S. dealers to purchase additions to their collections. Most such tokens have monetary use, at least on a local basis, and Mr. Wells suggested that they should be treated like other numismatic material (duty free under item 69200-1 or 36000-1), rather than continue to be classified as manufactures of wood, at 15 p.c., M.F.N., under tariff item 50600-1.

Many of the circumstances surrounding the production and importation of non-commemorative medallions or ingot-medallions and wooden tokens are similar to those for "limited editions".

For the reasons cited in the discussion of limited editions, and because of the actual or potential Canadian production involved, the Board finds itself unable to recommend any special provisions for these goods.

PHILATELIC COLLECTIBLES, EQUIPMENT AND LITERATURE

The Royal Philatelic Society of Canada, on behalf of its 6,000 members and, incidentally, the probably more than one million Canadian stamp collectors, made a submission requesting considerable broadening of the free-entry provisions relating to this activity. At present, postage stamps are free of duty and exempt from sales tax, being specifically named in tariff item 69200-1, an item specifically referred to the Board. The other items of philatelic interest, not being specifically named in the *Customs Tariff*, are each dutiable according to its own nature, usually at rates, under the M.F.N. Tariff, of from 15 p.c. to 25 p.c.

In the area of collectibles, the submission states that the interests of collectors go beyond stamps themselves to include such items as revenue stamps, postal stationery - i.e. post cards, envelopes, letter cards, wrappers and air letter forms, all having impressed stamps or other postal insignia - postal covers, which include early folded letters or letter covers without stamps but with manuscript and/or hand-stamped markings, covers carrying

postmarks, postage meter marks or other post office markings, and special philatelic covers such as first-day covers. These items, unless more than 50 years old, are now dutiable under various tariff items in the sections of Schedule "A" relating to printed items or to paper products. Unless the specimens have been used in international mail, the main source of supply in any instance is the country of origin.

The Society divided equipment into two groups: those goods designed solely for this hobby, such as stamp albums, album pages and binders, stock books and sheets, protective mounts, stamp hinges, glassine and similar types of envelopes, perforation gauges and watermark detectors; and those articles also used in other activities, such as tweezers, magnifying glasses, microscopes, ultra-violet and infra-red lamps and devices for cutting stamp protective mounts. Because of the difficulty in distinguishing those used in philately from those used for other purposes, no request was made with respect to the latter group of products. Free entry was requested for the first group on the grounds that none of them is produced in Canada and all supplies must be imported. However, the Board has learned that there are stamp albums produced in Canada. The major sources of imports would appear to be the United States, Britain, and West Germany.

In the field of literature, attention was drawn to philatelic handbooks and textbooks and to bound editions of philatelic journals, and also to stamp catalogues. The principal catalogues and journals used by collectors are produced in the United States, Britain and Switzerland. The major catalogues are published annually. They list the world's stamps, new and old, and show prices at which they are currently trading. Scott's catalogue, published in the United States, carries the advertising of stamp dealers and publishes a list of "Scott approved" dealers. Gibbon's catalogue, published in Great Britain, refers readers to its own stamp trading division. Thus they appear to be in every sense price-lists and commercial catalogues serving both the philatelic trade and collectors, and are classified as such by Customs under tariff item 17800-1. Some other philatelic publications are classified under tariff item 17100-1 as books, n.o.p. At the time of the hearing, the rate was 10 p.c., M.F.N., but free entry has recently been accorded for a three-year period. The federal sales tax is applicable to some, but not all, of this literature.

Insofar as the collectibles are concerned, the Board has noted that the appropriate B.T.N. Heading covers all the variety of products listed and that most other countries accord free entry to such collectibles. Under the circumstances, it concurs in the Society's proposal. Turning to equipment, it notes that most of the goods are products of industries - pulp and paper, plastics and printing - which are major Canadian activities. Further, it notes that there is little difference between these goods and similar products used by numismatists or amateur photographers for which similar treatment might have, but has not, been sought. Because of these implications and the actual and potential Canadian production, no change is recommended for such goods.

Under the circumstances, the Board recommends that:

1. The provision for "postage stamps" be deleted from tariff item 69200-1;
2. A new item be inserted in Schedule "A" providing free entry under all tariffs for:

"Postage, revenue and other official stamps; official postal stationery; postmarked and philatelic covers";

3. Goods classifiable under the item in recommendation 2 be exempt from federal sales tax.

TROPHIES OF WAR AND MILITARY COLLECTIBLES

Among the items specifically referred to the Board in this reference was tariff item 69210-1, which covers "trophies of war, being arms, military stores, munitions of war and other articles, which are to be retained for use as *bona fide* trophies under such regulations as the Minister may prescribe." The item also contains a proviso that "no article admitted under this item shall be sold or disposed of for use other than as a *bona fide* trophy without payment of duty."

While no formal regulations appear to have been prescribed, it is understood that the item is administered in such a way that goods are allowed free entry only when imported by someone who actually acquired them on the battlefield. Consequently, as Canada has not been involved in a war for more than a quarter of a century, the item is now virtually redundant and imports in recent years have been negligible. No representations were made concerning goods admitted under this item but it was cited by a number of collectors of military items who are unable to use it because they themselves did not, and do not, acquire the goods under appropriate circumstances.

Representations were received from Mr. R.L. Trostem, Calgary, Alta., who collects Second World War German naval material, Mr. Ron Rickey, Winnipeg, Man., who collects World War II souvenirs, Mr. P.E. Kannokko, Calgary, Alta., who collects World War I and World War II posters, and Mr. Frederick Hazell, Langley, B.C., who is interested in all military collectibles. Mr. Jeff Walker, Vancouver, B.C., who made the submission on beer collectibles, also mentioned that he had a collection of World War II military badges and medals. Free entry is specifically provided for medals for collections in tariff item 69200-1 and such medals are also exempt from sales tax.

All the aforementioned collectors pointed out that the goods in which they were interested were usually dutiable, quite often at substantial rates of duty, and were subject to sales tax. They also claimed that the duty did not

serve to protect any Canadian interest but simply increased the cost of their hobby, especially as in most cases they also had to pay sales tax. Mr. Hazell suggested that as most collectors are not interested in material produced after 1945, all military collectibles produced prior to 1946 should be duty free. He also indicated that tariff item 69210-1 might be revised to cover relics from Viet Nam and also modern-day army badges, buttons, etc.

The Board notes that World War I material now qualifies for free entry under the 50-year rule; this, of course, will not be available for World War II material for some years yet.

However, tariff item 69210-1 does make provision for more recently acquired trophies and this, in the Board's view, is sufficient coverage for collectibles in this area.

AUTOMOBILES, PARTS AND EQUIPMENT

The largest group of representations received with respect to collectibles related to "vintage", "classic" or "antique" automobiles. The major presentation was made by the National Association of Antique Automobile Clubs of Canada Corporation, a federation of clubs of collectors. It was backed and supplemented by submissions from many individual clubs, chapters of clubs and collectors.

One group of collectors described their field of interest as "the acquisition, restoration, preservation, salvage and maintenance of antique and classic automobiles and related artifacts." Enthusiasts are not only collectors but also hobbyists in that their interest goes beyond the acquisition of the relevant goods, to include restoration and use in rallies and, in the case of owners of "street rods" (old cars equipped with modern running equipment), in organized "runs".

In addition to old cars for restoration, the collectors seek old cars as sources of parts, and also used or unused original parts, reproduced parts (whether made of the original or some other material), and suitable upholstery fabrics, top materials and tires. While there is some availability in Canada, it was alleged that the supply is limited due to the scrapping of old cars, the deleterious effects of climate and road salt on such cars, the fact that most parts were originally of U.S. manufacture and excess stocks were returned to that country, because low or non-applied U.S. tariffs have enabled American collectors to buy up goods available in Canada, and because most reproduced parts and furnishings are made in the United States or Japan. Generally speaking, the goods of interest are most readily available in the country in which they were originally produced - usually the United States or Britain. Although many North American models were produced in Canada, the parts often came from the U.S.A. and many Canadian-built cars were exported.

On importation into Canada, goods are subject to the same rates of duty as apply to automotive products not imported under the Autopact or otherwise by Canadian car manufacturers. Under tariff item 43803-1 automobiles are duty free under the B.P. and G.P. Tariffs and are dutiable at 15 p.c. and 27½ p.c. respectively under the M.F.N. and General Tariffs. Parts are generally free of duty under the B.P. and G.P. Tariffs; many specified parts are free of duty under the M.F.N. Tariff when held to be of a class or kind not made in Canada, but those ruled made, as well as those not specifically named, are dutiable, usually at 12½ p.c. Textile materials for making tops or upholstery fabric are dutiable according to material at not unsubstantial rates under the textiles schedule. Tires are 17½ p.c., B.P. and M.F.N. (11½ p.c., G.P.) under tariff item 61815-1. In addition, virtually all importations by collectors are subject to the federal sales tax and heavier vehicles are subject to the excise tax levied under Schedule I to the *Excise Tax Act*.

Under item 99215-1 in Schedule "C", the importation is prohibited of "used or second-hand automobiles ... manufactured prior to the calendar year in which importation into Canada is sought to be made." Imports under certain special provisions for returning residents, settlers, diplomats, etc., are exempted from the provision, as are automobiles inherited by Canadians or *bona fide* purchased on or before June 1, 1931 by consumers for their own use and not for resale. Provision is also made for the Governor-in-Council to grant, by regulation, an exemption from the prohibition in any particular case or class of cases. Under this authority, the importation is permitted of cars "that are not less than fifteen years old and are imported as antiques or collectors' items." While this provision removes the ban, it does not affect the liability of the vehicles to customs duties and sales or other taxes.

The Board was asked to recommend free entry for antique cars and parts and also for tires, upholstery fabrics and top materials for such cars. Generally speaking, the main thrust of the proposals favoured a 30-year age requirement, although some suggested other periods ranging down to 15 years. The Board also received strong representations regarding the free return to Canada of automobiles made in this country more than 25 years ago. It was submitted that many examples of Canadian-made cars no longer in production had been shipped out of the country and special arrangements should be made for their repatriation. This particular question has been dealt with elsewhere by the Board.⁽¹⁾ Free entry was sought for parts regardless of whether they are used, old but unused, or reproduced. Requests were also made that these goods be exempted from sales tax, and in the case of heavier vehicles from the excise tax as well.

Some of the major considerations put forward in support of free entry have already been cited. In addition, it was pointed out that many provinces have special licensing arrangements for vintage vehicles not intended for use every day. Further, it was pointed out that Canadian automotive parts manufacturers did not oppose free entry for parts for vintage cars.

(1) *Infra*, pp. 42-3.

Perhaps no other hobby evokes such universal nostalgia and enthusiasm. Antique car collecting appeals to treasure hunters, antique restorers and amateur mechanics, young and old; it involves families and even communities in the exhibiting and parading of these historic vehicles.

The Board considers that this activity contributes to the maintenance of a record of technological progress and that much of the material required is not available in Canada and not imported under circumstances which compete with Canadian production. For these reasons, free entry appears warranted for vintage cars and for parts sold solely for use on such cars.

The Board, therefore, recommends that:

1. Free entry be afforded under all tariffs for:

"Automobiles and other motor vehicles produced more than twenty-five years prior to the date of importation; original parts or reproductions thereof for use only in or on the foregoing; tires suitable only for mounting on such vehicles";
2. Goods covered by the proposed item should be exempt from sales tax;
3. Such cars should be exempt from the excise tax imposed under Schedule I of the *Excise Tax Act*; and
4. Item 99215-1 of Schedule "C" of the *Customs Tariff* should be amended by adding to sub-paragraph (a) the tariff item number assigned to the item set forth in recommendation 1 and deleting (as redundant) sub-paragraph (c).

VINTAGE RADIOS AND GRAMOPHONES; GRAMOPHONE RECORDS

Representations respecting vintage radios were received from the Alberta and Toronto Chapters of the Canadian Vintage Wireless Association. The latter group also referred to vintage gramophones. In his general submission, Mr. Allan Crean Crane, Gibsons, B.C., referred specifically to records as collectibles and to special filters, specially ground styluses and related items, used to reproduce old records on modern equipment. A submission was also received from Mr. Arthur Bell, Burlington, Ont., with respect to collectors' records and tapes.

Collectors of vintage radios are interested in old wirelesses or radio sets, speakers and other components and in relevant magazines and other documentation. Vintage gramophones are, similarly, those types produced a number of

years ago but no longer in production. Mr. Crane suggested that any record no longer in production or listed in current catalogues has become a collectible. Mr. Bell did not define collectors' records and tapes other than describing them as "old".

Radios were first produced in the 1920's but gramophones (and records) in the form of cylinders or discs, go back to at least the last decade of the nineteenth century. Therefore, while only the earliest radios are more than 50 years old, there are greater numbers of gramophones and records now qualifying for free entry under the 50-year rule.

The following are the most relevant existing tariff items:

<u>Item</u>	<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>	<u>G.P.</u>
44533-1 <i>Radio ... apparatus and parts thereof, n.o.p.</i>	<i>Free</i>	<i>15 p.c.</i>	<i>25 p.c.</i>	<i>Free</i>
44535-1 <i>Phonographs and parts thereof, n.o.p.</i>	<i>10 p.c.</i>	<i>15 p.c.</i>	<i>25 p.c.</i>	<i>10 p.c.</i>
59730-1 <i>Phonograph records</i>	<i>15 p.c.</i>	<i>20 p.c.</i>	<i>(1) 30 p.c.</i>	<i>13 p.c.</i>

The foregoing goods are all generally subject to the 9 p.c. federal sales tax, levied on the duty-paid value.

The Alberta Chapter requested free entry for vintage radios, speakers, components, tubes and test equipment, magazines and other related documentation, at least 40 years old, subject to documentary proof of age. It was pointed out that sets are part of our cultural heritage and were often produced by Canadian firms which were not U.S. subsidiaries and which have long since ceased to exist. Some early Canadian products were exported and virtually the only source of parts is junked sets - often the parts are only available from the United States. The Toronto Chapter requested free entry for vintage radios and gramophones produced prior to 1950.

Mr. Crane requested free entry for records classifiable as collectibles on the basis outlined above, and also for the special apparatus required to reproduce early records on modern equipment, which is not produced in Canada and comes primarily from the United States or Japan.

Mr. Bell stated that he collected country western and blue grass records and tapes. He claimed that of more than 5,000 items in his collection, less than 10 were produced in Canada, and that as the records in which he is interested are neither produced nor available in this country he is obliged to

(1) Temporarily reduced to 15 p.c.

go to American dealers and collectors. He called for the abolition of duty on old records and tapes, on the grounds that the duty protects no one and penalizes collectors. He did not, however, suggest any definition of old records.

The collection and restoration of vintage radios is somewhat similar to that of vintage automobiles in encouraging the preservation in Canada of examples of an earlier technology and in offering opportunities for hobby skills. For these reasons the Board concludes that some assistance should be given to collectors of vintage radios and parts. A 30-year age limitation would, in the Board's opinion, meet the requirement of most collectors.

It does not consider, however, that preferential tariff treatment should be extended to old radio magazines, test equipment and other ancillary equipment beyond that already enjoyed by the 50-year rule.

While the same considerations apply to some extent to vintage gramophones, which are also part of our technological heritage, there is a much wider availability of goods already qualifying for free entry, and probably somewhat less interest than in radios. Many old records have been re-recorded and released in modern format, with 33 r.p.m. records replacing the now virtually obsolete 78 r.p.m. types. Tape cassettes and 8-track tapes have also tended to replace records, but often carry exactly the same recordings, even of long deceased artists.

For these reasons the Board sees no need to lower the 50-year age requirement for gramophones or records.

Accordingly the Board recommends that:

1. Free entry be granted to:

"Radio receiving sets, speakers and earphones, and parts thereof, produced more than thirty years prior to the date of importation, under such proof of age as may be required by the Minister";

2. The tariff item number assigned to the item in recommendation 1 be added to those listed in section 1 of Part VII of Schedule III to the *Excise Tax Act*, making these goods exempt from federal sales tax.

PHOTOGRAPHIC APPARATUS; MOTION PICTURES AND OTHER PHOTOGRAPHIC IMAGES

The Board received two submissions relating to motion picture films as collectibles and one covering photographic apparatus and images. The former came from the Cinephiles Association and from Mr. Malvern P. Jacobs, a member of the Nostalgia Film Society, while the latter was submitted by the Photographic Historical Society of Canada.

The Cinephiles Association sought free entry for motion picture films produced prior to 1957. It claimed that even films more than 50 years old are dutiable, which the Board finds hard to understand. It was further claimed that most old films have no commercial value and, in any case, collectors acquiring prints have no rights for their exhibition or release. It was asserted that the duty does not protect any Canadian industry and is a burden to collectors.

Mr. Jacobs sought free entry for films for collectors and not for commercial showing. He pointed out that most Canadian films available for purchase, particularly those produced prior to the institution of a Canadian feature film industry, about 1970, are of an educational nature and that the only Canadian-made films available to Canadian collectors are safety, health and educational films.

The Photographic Historical Society of Canada proposed free entry for types of photographic equipment and supplies no longer in production, including books and magazines, and for photographic images, other than commercial motion picture films, at least 25 years old. It was suggested that these goods would not in any way compete with Canadian manufactures or the output of contemporary Canadian photographers. They would represent goods used in Canada and assist in the understanding of the Canadian multi-cultural heritage.

Apart from the general 50-year provision there are now no special provisions for these goods on the basis of age or obsolescence, nor on the basis of importation by collectors other than museums or archives. While the goods might be imported from a number of countries, the major source of supply is the United States. Under the M.F.N. Tariff, motion picture films of the type in question would be dutiable at a rate of $1\frac{1}{2}$ cents per linear foot; films under one and one-eighth inches (28.575 mm.) in width have a maximum rate of 20 p.c. ad valorem. Other images and equipment are dutiable at various rates, with some goods free and many others at 10 p.c. Usually the federal sales tax would be applicable.

The Board notes that much photographic equipment is already duty free and that many older items are still capable of being used efficiently for their original purposes, and are so being used. Further, many films produced prior to 1957 and, in fact, many approaching 50 years of age, are still being shown commercially, particularly on television.

The Board considers that it would be difficult for customs purposes to devise items limited to goods for collectors.

The reduction of the age requirement to 50 years has already afforded some relief, and no further concessions in this area seem justified on the basis of the information available to the Board.

BEER AND COCA-COLA COLLECTIBLES

Representations were received from two collectors interested in somewhat related areas, both requesting free entry for the collectibles in which they are interested. Mr. Jeff Walker, Vancouver, B.C., made a submission as a collector of anything bearing beer or whisky advertising, such as old beer trays, metal and cardboard signs, glasses, coasters, openers and corkscrews. Mr. Tom Mitchell, also of Vancouver, collects *Coca-Cola* trays, signs, bottles, etc. Both collectors indicated that many of the items in which they are interested originated and often were distributed only in the United States, particularly in the case of those items related to alcoholic beverages. Both also indicated that because of the duties involved, they were inhibited from trading with collectors in the United States, who were usually able to obtain these goods from Canada free of duty.

Under the *Customs Tariff* as at present constituted, these collectibles, unless they can qualify for free entry under the 1977 provision for articles more than 50 years old, are dutiable each according to its own nature or component material of chief value, at rates ranging upward from 15 p.c., M.F.N. Many of these collectibles would be dutiable at 17½ p.c. when imported from the United States and would also be subject to the federal sales tax; goods classified as printed advertising matter would be subject to a minimum rate of 25 p.c.

Mr. Walker indicated that many of the items in which he is interested relate to brand names prevalent in the United States prior to the introduction of Prohibition at the end of the First World War. Similarly, many *Coca-Cola* "collectibles" are also more than 50 years old and, subject to the availability of satisfactory proof of age, are now free of duty and exempt from sales tax.

The Board considers that such goods do not merit special tariff treatment beyond the 50-year exemption.

HANDMADE ARTICLES

The Board received several representations respecting handmade articles. Mr. Gordon A. Campbell of Don Mills, Ont., asked that handwoven rugs from Morocco and the Middle East should be admitted free of duty. Mr. Campbell claimed that the production of such rugs is a native craft which is fast becoming a lost art. At present, these goods are classifiable under tariff item 57210-1 ("oriental rugs or carpets with pile hooked or knotted by hand"). The applicable rate of duty under the General Preferential Tariff is 6½ p.c. plus 3 1/3 cts. per square foot, there being a maximum total imposition of 10 p.c.

Another submission in the same general area was made by Ms. Vicki Henry, Ufundi Gallery, Ottawa, who requested that tariff item 69315-1 should be extended to include tribal articles in silver, gold, glass, bronze, wood and

basketwork of ethnographical significance made by hand in Third World countries. These goods are presently admitted under a range of tariff items, mostly at preferential or free rates. In Ms. Henry's view, "purchasing goods from Third World countries is a better alternative to aid."

Lastly, Mrs. Deveau of Robert Deveau Galleries, Toronto, suggested that in some product areas, modern handmade objects (including handwoven oriental rugs) should not be dutiable in view of their merit as collectibles and/or works of art. The duty-free entry of certain handmade articles of an artistic nature is already permitted under tariff items 69510-1, 69515-1, 69516-1, 69520-1, 69525-1 and 69526-1. Mrs. Deveau's proposal would, therefore, extend these provisions. Potentially many tariff items could be affected.

Having reviewed the aforementioned submissions, the Board is of the opinion that tariff changes of the kind suggested could have wide-ranging implications, affecting both customs administration and Canadian industry.

The Board is not prepared in the context of the present study to recommend any further duty relief beyond that already provided in the existing *Customs Tariff*. Further, all the aforementioned submissions appear to have overlooked the existence of tariff item 87500-1, which permits free entry, subject to certification arrangements, of "handicraft products with traditional or artistic characteristics that are typical of the geographical region where produced", being the handiwork of individual craftsmen in the less developed parts of the world.

DOLLS AND MINIATURES

The Board received a number of submissions concerning miniature reproductions, representing persons or objects, imported to form part of a collection or for use in the pursuit of a hobby such as war-gaming. Such goods may be imported from a number of countries but the major sources of supply cited before the Board were the United States and the United Kingdom.

Dolls and miniatures, both modern and antique, were the subject of a brief from Mrs. Ruth Jacobson, Port Alberni, B.C., who indicated that in her opinion the dolls and other miniatures of interest to collectors were similar to stamps and coins in that their value was dependent on condition and that other factors determining value were originality, cleanliness and state of repair. Free entry would facilitate exchanges between collectors seeking to complete some part of their collection.

Kitchener Importers, Kitchener, Ont., submitted a request for free entry for miniature reproductions, usually made to a common scale of 1 inch to the foot, of almost everything found in homes throughout our history. It was pointed out that such goods, which were first produced in the seventeenth

century, are used for display on curio shelves, in historical dioramas, or in miniature rooms and houses. Demand has led to the establishment of a new multi-million dollar craft industry producing such goods in the United States; cheaper lines come from the Orient. The firm believes that free entry would reduce prices, increase interest in Canada and lead to the development of a Canadian craft industry able to support itself without protection on the basis of quality and uniqueness of work. For these reasons, free entry was advocated for goods made to a specific scale and destined for the collectors' market. Some of these points were also made by Mr. F.A. Titcombe of Bedford Wholesale Ltd., who argued that the products in question are not toys.

In a letter addressed to the Minister of National Revenue, a copy of which was provided to the Board, The Soldier Shop, Vancouver, B.C., sought relief from duty on expensive, finely-crafted military miniatures for collectors. It was claimed that these are not produced in Canada and that the duties now imposed and the devaluation of the Canadian dollar result, in some instances, in the landed value in Canada being higher than the retail price in the United Kingdom and the United States, with the result that collectors order directly from manufacturers or retailers abroad. No actual price comparisons were made available.

On behalf of Coy Brothers, St. Catharines, Ont., and Canadian War-gamers, Mrs. Margaret Rodgers, Customs Broker of Toronto, made a submission with respect to military miniatures distributed by Coy Brothers for use by war-gamers. The goods in question, all accurately-scaled miniatures moulded in lead, plastic, or an alloy, may be imported partially assembled, in the form of complete figures to be hand finished and painted by the collector, or completely finished. Imports of the goods, which are currently not available from Canadian production, are primarily from Great Britain. The items are used in a hobby that helps people to relax and to take up a skill- or knowledge-oriented activity. The submission concluded with a proposal for free entry for "military figurines, in part or whole, of any material, finished or unfinished, sizes up to 90 mm."

At present, dolls are classified under tariff item 62405-1 and the other goods under review as toys of all kinds under tariff item 62410-1. Rates of duty under both items are 10 p.c., B.P., and 20 p.c., M.F.N. While there are undoubtedly differences in value between the dolls, miniatures and military figurines designed and destined for collectors or war-gamers and those for use as children's toys, this or any other wording of the distinction, for customs purposes, appears to the Board to have administrative difficulties. It is noted that in the cases at least of dolls and household miniatures, there are many goods now enjoying free entry under the 50-year rule. The Board also feels that as there is an increase in the presently somewhat limited interest in these goods, there is an increased possibility of Canadian production, which would be encouraged by the protection now afforded.

Under these circumstances, the Board is not recommending any changes in the tariff status of these goods.

LIMITED EDITIONS

A somewhat controversial group of modern collectibles is made up of the so-called limited editions of plates, silverware, medallions, etc., usually related to some theme which may or may not be commemorative of an historical or a current event. Representations were received both for and against granting special tariff treatment to such goods.

In a general submission, Mr. W.J. Bosch, who claimed to have spent some 20 years in the antiques and collectibles business in Canada, and to have published articles on the matter of fraudulence in this field, wrote as follows:

"In respect to the reduction of tariffs on limited edition ceramics, figurines and similar artifacts, this is absolutely ridiculous. I would like you to understand that for e.g.: A limited edition 1977 Christmas plate may consist of 200,000 pieces. Now surely this is not a limited edition. But aside from the question of numbers one must consider the question of artistic merit. Let us never forget that the initial limited editions were either representations of historic events or important paintings etc. commemorating a historically significant occurrence. These editions were limited to 500-2000 pieces. To-day this is not the case. The fact of the matter is that there are very few limited editions, let alone the editions of artistic merit. The limited edition business has become a multi-billion dollar business and is no more nor less than a huge mail order department store selling anything from totally valueless china plates to horrendously overpriced silver or gold coins of no historic value or artistic merit."

On the other hand, Mr. Ken Richardson, a lecturer and exhibitor and a columnist writing on limited editions, C.E. Sorvin Ltd., Vancouver, B.C., and Josiah Wedgwood & Sons (Canada) Limited, Willowdale, Ont., all sought free entry for limited editions on the grounds that many are not produced in Canada and the duty is, therefore, a burden on the collector, that the goods are of high quality, with artistic merit, and that rarity results from the limitation of production but subsequent demand depends upon collectors' interest.

Mr. L. De Young, Port Credit, Ont., proposed free entry or reduced rates on porcelain collectors' plates when imported for resale by small businessmen.

As a wide range of goods are involved, imported mainly from the United Kingdom or the United States, rates of duties applicable are variable, with, for example, bone china tableware being free of duty under the B.P. Tariff, while silverware from M.F.N. sources is dutiable at $22\frac{1}{2}$ p.c. Most goods would be dutiable on importation, at rates varying from 15 to $17\frac{1}{2}$ p.c., B.P., and $17\frac{1}{2}$ to $22\frac{1}{2}$ p.c., M.F.N.

While classifying the goods as modern collectibles, the Board is aware that there are available specimens of earlier limited editions which are now duty free because they were produced more than 50 years ago. It further notes that in many instances the limited editions take the form of functional goods and, while they can usually be distinguished on the basis of decoration or finish, it is very questionable as to whether it would be possible to devise an administratively feasible wording broad enough to cover all the diverse types of limited editions without including regular merchantable products which would compete with Canadian manufactures. Further, it does not feel competent to establish the maximum number of copies which could be produced in order to qualify a product as a limited edition. It would also be difficult to word an item in such a way as to limit its application to any particular class or classes of business or collectors. Finally, it is felt that the duty may encourage Canadian production of limited editions and that the imposition of duty on such goods, when imported, does not constitute a particular burden.

For these reasons, no special tariff treatment is recommended.

ART GLASS INCLUDING PAPERWEIGHTS

These types of collectibles are similar to limited editions but differ from them in that the principal material used is always glass and that they are usually produced by individual craftsmen, so that each specimen, if not unique, is one of a very few examples. Art glass may be in either a functional form, e.g. a vase or a water pitcher, or a non-functional and even a non-representational form. The paperweights of interest to collectors, while capable of holding down papers, are not usually so used, but are collected for display.

Art glass was the subject of a submission by Elena Lee-Lapalorcia, owner of Verre Art Glass, of Montreal, dealers in contemporary Canadian and imported art glass. In her brief, she stated:

"Art glass is free blown and shaped glass, quite different from the mold blown European or American production lines. This glass is produced in small one-man or two-men studios all over Canada and the United States. Most of the pieces are unique pieces and even if some ideas are repeated a few times, never one piece is like another. Even if the forms are often vases, bottles, goblets and paperweights besides

completely nonfunctional sculptures, these works should be considered as sculptural art or collectibles, because their main purpose is not the possible use of the piece but its unique artistry and beauty."

It will be noted that the submission by Verre Art Glass lists paperweights as a form of art glass. Paperweights, however, were also the subject of a specific presentation by Mrs. D.W. Burns of Montreal, a dealer in these goods. Her submission in favour of free entry for paperweights was supported by the Paperweight Collectors Association (Quebec Chapter).

According to Mrs. Burns, the heyday of paperweight production was the mid-nineteenth century. After this period, interest in these goods languished until quite recently, when production was resumed. Some relatively low value paperweights are produced in substantial quantities by commercial glass firms; individual artists tend to produce more costly limited editions of some 500 to 1,000 copies, or even more expensive special limited editions, usually of high artistic quality, in even fewer numbers. All are designed primarily for collectors and not for actual use.

While most art glass is of recent date, there are also older examples, like the nineteenth century paperweights, which qualify for free entry as articles more than 50 years old. Some art glass is also admissible free of duty under all tariffs under tariff items 69515-1 and 69516-1:

Original sculptures and statuary, including the first twelve replicas made from an original work or model; assemblages:

69515-1 *The professional production of artists only and valued at not less than seventy-five dollars each...*

69516-1 *The production of artists domiciled in Canada but residing temporarily abroad, under regulations by the Minister*

Paperweights and other forms of art glass not qualifying for free entry under one of the above are, in the absence of any other provision, classified as "manufactures of glass, n.o.p.", under tariff item 32615-1 at rates of 10 p.c., B.P., and 17½ p.c., M.F.N. When classified under this item they would usually also be subject, at the time of importation, to the 9 p.c. federal sales tax levied on the duty-paid value.

The principal arguments advanced in favour of free entry were that these goods are not utilitarian but rather artistic and, as such, of interest to collectors, and that Canadian craftsmen would be stimulated by access to and competition from imported works. It was admitted that paperweights and other forms of art glass are produced in Canada but, particularly in the case of the

former, it was suggested that most Canadian goods are not up to the quality of imported works, perhaps due to the lack of suitable materials.

The Board has given careful consideration to these proposals. It notes, however, that in the case of paperweights, it would be difficult to devise an administratively feasible wording to distinguish between commercial products and those of artistic interest. Further, it notes that there is considerable Canadian production of both paperweights and other forms of art glass. Museums which have public collections of such goods already have free entry for them, and products more than 50 years old are also free. Certain art glass pieces presumably qualify for free entry under item 69515-1.

Under the circumstances, the Board does not feel justified in recommending broader free entry provisions for these goods.

OTHER COLLECTIBLES

The Board received a number of other submissions relating to collectibles. These can be summarized as follows:

1. The National Association of Watch & Clock Collectors, Chapter 33, sought free entry for items of Canadian manufacture and for limited edition reproductions of horological items. In the first category it cited specifically Pequegnat clocks, produced in Canada until 1941; it was pointed out that these are of concern to all interested in the Canadian heritage, and not just to clock collectors, but are not all free of duty as they are not all 50 years of age. For the limited editions, it was urged that specimens of the originals are often unavailable due to rarity or are prohibitively expensive; the free admission of limited reproductions could make them available for the enjoyment of those interested, without injury to Canadian industry. Mr. R.B.H. Du Boulay, Toronto, also expressed an interest in free entry for old clocks and watches.
2. A letter was also received, expressing an interest in the reference, from the Canadian Association of Watch Fob Collectors, a group of about 300 engaged in the collecting of antique advertising watch fobs. No specific request was made.
3. Mr. Paul Evanish, White Rock, B.C., sought free entry for juke boxes for collectors, pointing out that most models of interest to collectors are not 50 years old, but were produced prior to 1960.
4. The submission of Lever Arms Service Ltd., Vancouver, B.C., referred to elsewhere, also contained a proposal that wooden-hulled marine craft over 15 years old be admitted duty free when for non-commercial private pleasure use and

imported by or for sale to collectors. It was claimed that with the advent of marine plastics the construction of boats with wooden hulls is a thing of the past and that there is a growing interest in the collection and restoration of vintage boats.

5. Lever Arms Service also proposed that aircraft over 15 years old be admitted duty free when imported by or for sale to collectors with the proviso that the Canadian registration certificates for these aircraft limit them to use for non-commercial private pleasure. Mr. K.M. Molson, Islington, Ont., who advocated that goods for non-profit museums (rather than just for public museums) be admitted duty free, mentioned, in particular, old aircraft and parts and old aviation engines as items that should, in any case, be admitted free of duty as historical artifacts likely to end up in museums. He offered no definition of "old". Neither of these submissions made any proposal with respect to tariff item 99216-1, which prohibits the importation of used or second-hand aircraft except under certain circumstances. By regulation, aircraft for personal use are exempt from this prohibition, and it would probably be waived in the case of a public museum.

6. Mr. Mason W. Mitchell, St. George, N.B., advocated that the free entry proposed for antique cars be extended for the same historical reasons to antique bicycles and possibly antique motorized bicycles. He did not, for this purpose, provide any definition of "antique" but the context of his proposal makes it clear that he sought some reduction in the 50-year period.

7. A letter from Mr. D.C. Remington, Cardston, Alta., a collector of horse-drawn carriages, stated that because of the great amount of interest in restoration, parts for the restoration of such carriages are again being made in the United States. He also said that as no parts are made in Canada, he felt it an injustice that duty should be payable.

All the foregoing goods are classified under the same items as would apply if they were of current production or use, unless, of course, they are more than 50 years old. In most cases the M.F.N. rates of duty would be at least 10 p.c. Free entry was sought generally on the grounds of lack of competition with current Canadian production and the assistance it would afford to Canadian collectors.

After considering all these submissions, the Board finds itself unable to recommend any further relief beyond the reduction in age (limit to 50 years and its recommendations, given elsewhere, regarding the repatriation of Canadian goods. The collectibles listed here do not differ in substance from the other collectibles less than 50 years old for which the Board has not found it appropriate to recommend special treatment. It is also noted that in certain instances, particularly with respect to aircraft and boats,

(1) *Infra*, pp. 42-3.

the types for which free entry is sought, while of interest to collectors, are being used regularly for the purposes for which they were originally designed.

Under Schedule "C" to the *Customs Tariff*, item 99218-1 prohibits the importation of used or second-hand periodical publications except those sent gratis to Canada for charitable purposes, sent to persons in Canada as casual donations by friends abroad, imported for personal or for institutional use and not for re-sale, or imported by or for paper mills for use as stock in the manufacture of paper. In a submission to the Board, Mr. W.H. Bell, Sidney, B.C., requested that this prohibition be reconsidered. He indicated an interest in establishing a mail order business in old aviation magazines, the major source of supply for which would be the United States. If importation for re-sale should continue to be prohibited, it would not be possible for him to establish such a business. Mr. Bell indicated that he had been unable to obtain any satisfactory explanation for the existence of this prohibition and that other dealers or potential dealers in old periodicals were also interested in its removal. The Board understands that this prohibition was originally introduced some forty years ago for health reasons, to prevent bulk importations of second-hand magazines which had been available to large numbers of people abroad, perhaps in doctors' offices, and were thus potential sources of infection. The health hazard might be greater under such circumstances than under those where importation is now permitted.

A request that the existing prohibition should be maintained was received from the Magazine Association of Canada, representing 21 of the country's magazines. However, the Association put forward no argumentation or evidence in support of its position.

Under the circumstances, the Board suggests that the Minister should give consideration to the repeal of this prohibition by the deletion of tariff item 99218-1.

Finally, the Minister's letter of reference named several categories of collectibles which have not been the subject of representations to the Board. The articles in question are telegraph pole insulators, bottles, and rolls for player pianos. In view of the lack of any specific submissions with respect to these goods, the Board is unable to make any recommendations.

OTHER MATTERS

Tariffs or Quotas on Imported Works of Art

The Board received a submission from Madame Ninon Gauthier, an art sociologist of Sherbrooke, Quebec, speaking on behalf of a number of Canadian artists, regarding the need to impose restrictions of some kind on the importation of various works of art, less than 50 years old, which would normally have

free entry under tariff items 69515-1, 69520-1 and 69525-1. Madame Gauthier submitted that there had been a marked decrease in the income of Canadian artists in recent years, due to worsening economic conditions. Drawing attention to the controls on exports of works of art already recognized by the enactment of the *Cultural Property Export and Import Act*, she proposed that this *Act* be amended to impose quotas for artistic production less than 50 years old from the countries that export great quantities of their works of art to Canada. In addition, she recommended the immediate imposition of a tariff on all works of art the products of non-Canadians not domiciled in Canada. To establish the appropriate level for such a tariff, Madame Gauthier suggested an inquiry be conducted in close consultation with the artists concerned to establish a tariff level which would effectively deter the very heavy movement of works of art into Canada taking place at the present time.

Particular reference was made during the discussion to the importation of paintings and other art work of very questionable artistic value which can be ordered by catalogue number. The latter, which qualify as original works because they are the product of hand painting or hand craft of some kind, are reproduced in large numbers to the same design.

The Board in considering these proposals was conscious of the long-standing acceptance in Canada of the concept of free movement of art across international borders. Although Canada has not adhered to the *Florence Agreement*, a proposal to move towards a restriction on the entry of works of art would seem to run contrary to established Canadian policy and in any event to be beyond the scope of the present inquiry. It may well be that the existing tariff items, particularly tariff item 69520-1, are being abused through the importation of the "Order by Catalogue" type of art referred to above. The Board does not consider itself competent to make a recommendation as to appropriate changes in tariff nomenclature or administration which might resolve this problem. This is a question, however, that the appropriate authorities may wish to review.

Repatriation of Canadian Goods

Under the provisions of tariff item 70905-1, goods which were produced or manufactured in Canada and exported therefrom may be admitted free of duty if they are returned to this country within five years of the time of exportation without having been advanced in value or improved in condition by any process of manufacture or other means and provided that they have not been combined with any other article abroad. Any other Canadian product, on reimportation, is subject to the same rates of duties and taxes as are applicable to foreign products. At the public hearings on this reference, collectors of various types of goods indicated their view that this discouraged the repatriation of Canadian collectibles, citing particularly certain types of clocks, radios and automobiles which were produced only in Canada. Numerous requests were made for some provision under which such goods could be repatriated without payment of duty or taxes.

The Board feels that there is some merit in this request and recommends the insertion in Schedule "A" to the *Customs Tariff* of an item to cover such goods with an age limitation which is likely to restrict it principally to products of interest to collectors; such an item might be worded:

"Goods, the produce or manufacture of Canada, which have been exported therefrom, produced more than twenty-five years prior to the date of importation."

The Board recommends further that such goods should be exempt from sales tax.

Consistency of Administration

Another theme raised throughout the hearings was the suggestion that the tariff provisions relating to antiques and to other collectibles were not being administered in a consistent manner at all ports of entry. These differences were attributed both to lack of firm direction with respect to problems which arise and to lack of expertise available for the classification and valuation of antiques, collectibles and hobby equipment. The Board feels that this area is beyond the scope of its terms of reference and has no means of checking the validity of the representations. It does, however, wish to draw them to the attention of the authorities concerned.

HOBBY EQUIPMENT

GENERAL CONSIDERATIONS

A hobby is defined in *Webster's New Twentieth Century Dictionary* as "something that a person likes to do or study in his spare time; favorite pastime or avocation." The same authority defines equipment as "whatever a person, group, or thing is equipped with; furnishings; outfit." The open-ended and indeterminate nature of these definitions was an important factor in the Board's decision not to recommend the establishment of a single tariff item applicable to hobby equipment generally. There were, however, other cogent reasons favouring an individual and more selective approach to the problem.

The Minister's letter of reference, for example, ruled out tariff concessions in relation to certain recreational sports equipment in widespread use in Canada, e.g. skis, golf clubs. At the outset of this inquiry, the Board stated its view that a hobby is by nature a non-profit activity and this approach has of course influenced the scope of the Board's findings. The blanket removal of duties on all articles of hobby equipment - if these could be adequately defined - would take no account of the existence of Canadian producers and their varying needs for protection. Moreover, such blanket treatment would seem to imply that all hobby activities and their associated items of equipment are equally deserving of special consideration, which the Board is not convinced is the case. There are also strong practical reasons for excluding from preferential treatment equipment or goods which cannot readily be identified by customs officers as being for a particular hobby use. Many of the tools, materials and accessories used by hobbyists also have commercial applications, which would result in problems, for customs purposes, of differentiating between these and non-commercial end-uses.

While hobbies are normally pursued primarily for the satisfaction or enjoyment of the individual, many have benefits - sometimes direct, often indirect - for society as a whole. A distinguishing characteristic of hobbies in general is that they make constructive or positive use of leisure. Sometimes, as in the case of modelling and handicraft activities, the term "constructive" is to be taken literally, and the end result may be a finely precision-engineered ship or train, built exactly to scale over a period of as much as four or five years. Hobbies of this kind obviously serve to promote the development of manual and technical skills and, in so doing, provide a potentially valuable source of manpower. Similar economic benefits may accrue in the case of knowledge-oriented activities. Indeed, in some instances, part of the leisure activity may comprise the provision of useful back-up or support services for professionals. Such, apparently, is the case in the astronomy field. In other instances, most notably in the field of amateur radio, the practice of a hobby may assume a public-service character, whereby benefits are conferred upon the community at large. In competitive activities, usually of a sporting nature, national prestige may be enhanced by outstanding performance while the physically-demanding and challenging activities such as mountain climbing are

generally recognized for their character-building. Less exacting hobbies may be held to serve a useful social purpose as well, in that they give meaning to the lives of the elderly and supply a non-destructive outlet for youthful energies.

The hobbyists appearing before the Board (mainly as representatives of particular clubs, associations or federations) were, indeed, drawn from every age group. It appeared that some hobbies such as radio operating appeal to young, middle-aged and elderly alike. Others are apparently more biased in this regard. As already noted⁽¹⁾ the younger element, not surprisingly, seems to dominate the more physical pastimes such as scuba diving, while persons of retirement age or thereabouts are apparently well represented among the handicraft workers and model engineers. However, irrespective of age, the general impression conveyed by the hobbyists to the Board was of dedicated, educated, hard-working Canadians, enthusiastic about their various fields of interest and very cognizant of the rules and regulations applying to their pastimes.

Almost without exception their submissions to the Board (and those of the distributors who generally supported them) were prefaced by an acknowledgment that tariffs should be imposed for the protection of Canadian industry, and the elimination of duties was not sought in relation to products where domestic manufacturers had seemingly established a firm market position as, for example, in the case of scuba diving wet suits. Such situations were, however, exceptional; and, in general, it was claimed that there was no, or no significant, Canadian industry to protect: a conclusion apparently borne out by the very limited participation of domestic producers in the Board's proceedings and by the Board's own research. Explanations of this apparent lack of indigenous enterprise were mostly couched in terms of the limited size of the Canadian market, a frequent observation being that home demand was too small to warrant the installation of specialized production facilities. Indeed, it was put to the Board that Canadian firms would be unable to survive in certain of the leading sectors of the hobby field without exporting a substantial proportion of their output. At the same time, it was suggested that continuity of production, supply and service might be a problem with new Canadian producers.

At the present time, Canadian imports of hobby equipment are obtained from three principal geographical regions. In the case of a fairly narrow range of highly specialized products made to exacting standards for use in connection with pastimes such as mountain climbing and competitive rifle shooting, the main - sometimes, the only - sources of supply are traditional centres of production in Europe located mainly in the United Kingdom, Germany and Switzerland. Secondly, in recent years an increasing proportion of equipment in the electronics and modelling fields has been made in Japan, Taiwan, Hong Kong and South Korea. Because of volume discounts received by U.S. distributors most of the goods originating in these countries are imported into Canada from the United

(1) *Supra*, p. 8.

States with a resultant compounding of duties. That country in any event is the major source of supply for most hobby products imported into Canada.

Since Canadian hobbyists have ready access to American catalogues and price-lists, they are well aware of the substantial - and, until recently, widening - disparity between the retail prices charged for hobby equipment in the two countries.⁽¹⁾ At the public hearings, strong feelings of frustration were evident when the subject of comparative prices came under discussion. According to many who appeared before the Board, one way in which hobbyists are attempting to keep the costs of their pastimes within bounds is by taking a vacation in the United States and bringing back articles under the duty-free allowance. In addition, it was alleged that items of hobby equipment are often bought and used in the United States and then declared as Canadian goods or else not declared at all. The Board was informed that up to 60 per cent of new scuba diving equipment used in Canada last year was purchased by hobbyists in the United States. Sales of scuba gear by domestic retailers have allegedly declined as a result, in spite of the increasing popularity of this pastime among Canadians.

On several occasions during the course of the public hearings problems arising in connection with the bilingual labelling regulations were described. Some importers claimed to have experienced difficulty in obtaining supplies of certain hobby items from the United States because of the strict application of these regulations. Conversely, a small Canadian manufacturer complained that while he had been required at considerable expense to put bilingual labels on his products, the products of his U.S. competitors were not so regulated.

The case for duty relief argued before the Board was expressed in terms of benefits accruing not only to hobbyists and distributors but also to the economy at large. Among the considerations mentioned were reductions in the prices of hobby equipment in Canada, less smuggling and larger retail sales leading, on the one hand, to more employment and, on the other, to increased government revenue from sales tax, income tax and corporation tax. In a reversal of the conventional "infant industry" argument, it was further suggested that new indigenous industrial enterprise might be encouraged to develop as a result of expanding home demand occasioned by lower (duty-free) product prices.

With respect to almost all the pertinent issues the presentations of the importers, distributors and hobbyists revealed a close identity of interests. Several distributors, however, requested that any reductions in duty should be phased in over a period of several years in order to prevent too drastic a change in the value of inventories. Such an approach was not rejected by the hobbyists.

In the course of its detailed examination of the individual proposals for tariff relief on hobby equipment, the Board identified a wide spectrum of goods for which there appears to be little or no Canadian production and hence little reason for tariff protection. The estimated volume of imports was also in

(1) See Appendix 3 for more detailed discussion.

many cases so small as to generate a comparatively minor percentage of Canadian customs revenues. On the other hand, the impact of duties and taxes on the individual hobbyist was obviously an important factor, particularly in the light of the depreciation of the Canadian dollar.

For reasons mentioned earlier, each area of hobby equipment had to be considered separately on its own merits. It is difficult, therefore, to generalize as to the reasoning which prompted the Board to recommend tariff relief in certain cases and not in others. The Board tended, however, to single out skill-oriented pastimes, either of a mental or physical nature, particularly those involving manual, technical or physical challenge; the non-profit nature of the activity was an important factor. A concern to avoid proliferation of administrative difficulties led the Board to opt for tariff relief for major and easily identifiable items of hobby equipment in each area.

MODELS

The making of model replicas of aeroplanes, trains, boats, rockets and other means of locomotion was the subject of widespread representations to the Board. It was in this field also that the distinctions which might be made between "toys" and "hobby equipment" were frequently discussed. Such discussions were inevitable, for models may vary from inexpensive representations designed for small children to highly complex exact-scale reproductions constructed over a period of years by dedicated and skilled hobbyists. While it cannot necessarily be applied to all situations, the Board adopted as a working hypothesis the definition of model hobbies proposed by Canadian Hobbycraft Ltd., Rexdale, Ontario: "... a leisure time activity dealing with the assembly and construction of miniature replicas of real objects such as ships, planes, railway cars, etc. This is a self-expressive pursuit of a non-profit nature."

Under this definition, it is obvious that simple reproductions of cars, planes, trains, etc., are toys, as are simple snap-together construction kits. More elaborate construction sets and components present a more difficult problem. The Board concluded that, generally speaking, it would consider such goods to be hobby equipment when designed for use as, or in the construction of, exact-scale models. Such supplies and equipment as fuel for motors, replacement batteries, paints and other finishing materials were not further considered. Model kits are at present classified for tariff purposes as toys. There are separate tariff items for toy trains and for other toys; under both, the M.F.N. rate is 20 p.c.

Representations were received with respect to live steamers, model railroad equipment, model ships, model aeroplanes, remote control equipment for such planes, and model rockets. Each of these subjects is considered separately.

The lack of Canadian manufacturing activity was reflected in the views of the Canadian Toy Manufacturers Association (CTMA), Kleinburg, Ont., which reiterated the position taken in its submission to the Canadian Trade and Tariff

Committee. It proposed the duty-free treatment from all sources of model building kits with or without stands, and parts thereof. However, the CTMA's proposal was conditional upon "the retention of existing tariffs on a range of toy products essential to the survival of this industry in Canada."

Live Steamers

These are large-size working-scale models of steam engines and similar goods. Their construction requires a considerable degree of practical engineering knowledge and skill and often takes several years. There are well-organized clubs of practitioners of this art in Toronto and Vancouver, although not all who are active in the hobby are members of a club.

The principal problem cited by this group was the need to import, often from the United Kingdom, certain semi-finished castings, steam fittings and special-sized metal shapes not available from Canadian manufacturers. The Board's attention was directed to difficulties which had been experienced in establishing the proper classification for some of the goods, especially castings; more precise tariff provisions for such goods were sought, as well as relief from duties, as a form of assistance to this group.

Model Railroad Equipment

Model railroad equipment can be distinguished from toy train sets as being, basically, actual equipment reproduced to scale. Some expensive toy train sets may include a locomotive that is an exact scale replica, and such replicas may also be sold as accessories for use with such sets. However, for the purposes of this discussion, only scale equipment is considered to be hobby equipment.

Model railroaders cited the lack of production in Canada of the goods in which they are interested and sought relief from duty on a wide range of goods or kits for making such goods, including locomotives, carriages, tracks, power equipment and accessories such as stations, trees and other items required to complete a model layout.

It was drawn to the Board's attention that there are four small Canadian firms producing perhaps slightly more than 1 per cent of the requirements of Canadian model railroaders. These firms largely specialize in goods with a definite Canadian context such as dry transfer lettering for rolling stock, wood kits for rolling stock and buildings, soft metal specialities, etc.

Representations were also received from the Canadian Division of the Toy Train Operating Society. This group consists of collectors and operators of larger scale toy trains which have never been produced in Canada. Although they have received some assistance from the reduction in the age limit to 50 years, they sought further assistance through free entry for the "S", "O" and "Standard Gauge" equipment which they use. It should be pointed out that these goods are

acquired in a "ready to run" form and thus the equipment differs from the model railroad equipment discussed above.

Model Aircraft

Numerous representations were received seeking free entry for model aircraft, particularly scale replicas, acquired usually in kit form to be built by hobbyists. There are various types: static display models, usually of plastic, and models designed to fly whether or not powered by remote control radio signals or control devices. Virtually all Canadian requirements are imported and kits of flying models are often priced from \$150 up. Engines are from \$20 to \$50 and remote control equipment varies in price from \$300 to \$1,000.

There is at least one Canadian producer of model kits - Easybuilt Models and Crafts Limited. It was, however, pointed out that this manufacturer does not produce to scale and that almost all of its production is exported to the United States. This company indicated that it imports balsa wood to be cut up in Canada and that it could not compete in this area without protection.

Radio Control Equipment

This equipment is used not only with model aircraft, but also with other models such as boats, cars, and other vehicles. Representations were received requesting free entry for this equipment on the ground that there is virtually no Canadian production. These views were opposed by two firms: Isotronic Electronic Inc., Don Mills, Ont., which produces radio control equipment with some Canadian content, and Naviteer Guidance Systems, Regina, Sask., which said that it must import 95 per cent of the components as they are not available domestically. The Board understands that Canadian production is largely limited to equipment providing not more than four channels, whereas the more sophisticated equipment may have up to six channels.

Naviteer pointed out that duty would have to be paid on many of the imported components, and that it would be discriminatory, under the circumstances, to allow free entry for finished equipment. No views were advanced as to whether free entry would be acceptable if parts and components were free. Isotronic, on the other hand, indicated that free entry for components, such as electric motors from Japan and electronic components from the United States, would be helpful, but sought to retain duties on kits and finished goods competitive with those it produced.

Model Rockets and Rocket Engines

A number of requests were received for free entry for model rocket kits. This was opposed by Canaroc Industries Ltd., Edmonton, Alta., which produces kits in Canada. However, with the exception of a replica of the Canadian Brant rocket, this company does not produce to scale.

The arguments advanced in favour of free entry were similar to those put forward for other models. Canaroc sought to retain the protection it already enjoys, but also indicated that it would be further assisted if free entry could be afforded for balsa wood timber for making nose cones and special tubes for making rockets. Neither of these requirements can be met from Canadian sources. It further suggested that imports of model rockets should be subject to a quota and that bilingual packaging requirements be enforced for imports to the same extent as they are for domestic production.

Canaroc argued that the increase in the popularity of this hobby is due in large part to modifications to the federal regulations concerning the sale of explosives. Canaroc estimated the current market at over \$1 million and claimed that there is a good potential for further growth. The company indicated that it is in a position to meet this demand and that its recommendations, if implemented, would increase the number of direct jobs.

Canaroc also pointed out that the rocket engines which it produces differ from those used to power other models in that they are solid propellant or external combustion engines, which are used only once. At present, these are classified under tariff item 66500-1 ("torpedoes, fire-crackers and fire-works of all kinds"), with an M.F.N. rate of 20 p.c. The company sought to retain this protection.

Other Models

Mention was made of other types of model kits, such as model cars and model boats. The arguments for free entry were based on lack of Canadian production and the difference between kits for the hobbyist and toys. Scale model plastic car kits are produced in Canada by Parker Brothers, Concord, Ontario, which did not, however, seek tariff protection. The demand for foreign-made models was said to generate further demand for this domestic product.

Model Engines

The Board was informed that internal combustion engines and electric motors and transformers, in general, are not produced in Canada and must be imported.

Although no representations were received from any Canadian manufacturers, the Board was made aware that a hobby engine used for large scale model planes is manufactured by Trail Manufacturing Limited, Trail, B.C., under the trade name "Quadra". The firm produces air-cooled internal combustion engines, having a displacement of 2.08 cubic inches or 34 cc. The engine is a modified chainsaw engine.

Summary and Conclusions

A number of tariff items are applied to the various products cited above. Among the principal ones are the following:

		<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>	<u>G.P.</u>
(Kits or Sets)					
62410-1	<i>Toys of all kinds, n.o.p.....</i>	10 p.c.	20 p.c.	40 p.c.	10 p.c.
62425-1	<i>Toy electric train sets, transformers, parts and accessories for use therewith</i>	5 p.c.	20 p.c.	40 p.c.	5 p.c.
(Internal Combustion Engines)					
42805-1	<i>Engines or boilers and complete parts thereof, n.o.p.</i>	15 p.c.	15 p.c.	30 p.c.	10 p.c.
42820-1	<i>Air-cooled internal combustion engines of not greater than 1½ h.p. rating, and complete parts thereof</i>	Free	15 p.c.	30 p.c.	Free
42821-1	<i>Gasoline internal combustion engines, air-cooled, having a displacement of not more than 0.15 cubic inch, for use in the manufacture of model aircraft and model motor vehicles by manufacturers of such aircraft or motor vehicles in their own factories</i>	Free	Free	30 p.c.	Free
(Electric Motors)					
44516-1	<i>Electric motors, and complete parts thereof, n.o.p.</i>	15 p.c.	15 p.c.	37½ p.c.	10 p.c.
(Radio Control Apparatus)					
44533-1	<i>Radio and television apparatus and parts thereof, n.o.p.....</i>	Free	15 p.c.	25 p.c.	Free

While free entry is provided for some materials and parts for use in the manufacture of radio apparatus, most other parts, not listed in items above, are dutiable according to the component material of chief value - e.g. as manufactures of plastics at a rate of 17½ p.c. M.F.N. The rates under such

provisions are in the range of 15-20 p.c., M.F.N. Balsa wood in timber form falls under various items, depending upon the extent of processing, at rates varying from Free up to 10 p.c.

No change in the status of balsa wood is recommended.

The Board notes that very little scale model equipment is produced in Canada. Production is largely limited to goods with a Canadian context that are unlikely to be produced abroad. As noted above, the Board considers non-scale models to be toys.

The Board recommends free entry for scale model kits, parts and plans.

Similarly, it is possible to distinguish between those forms of propulsion which are produced in Canada and those which are not.

The Board recommends free entry for certain forms of propulsion to be used with the kits for which free entry is suggested.

The Board also recommends consequential amendments to certain other tariff items.

Recommendations

The Board recommends that:

1. A new item be inserted in Schedule "A" of the *Customs Tariff* providing free entry under the B.P. and M.F.N. Tariffs for:

"Construction kits or sets and parts thereof; semi-finished castings, steam fittings and metal shapes; all the foregoing for making, assembling or repairing model trains, aeroplanes, boats, cars and other model articles manufactured to a reduced scale of the actual articles; plans for use with the foregoing";

2. A new item be inserted in Schedule "A" providing free entry under the B.P. and M.F.N. Tariffs for:

"Equipment designed to power or propel the model articles described in tariff item 1, and parts thereof, including electric transformers, internal combustion engines, electric motors and radio transmitters, but not including internal combustion engines having a displacement of more than 1.5 cubic inches, radio transmitters of four channels or less nor model rocket engines or fuel";

3. Tariff item 42821-1 be amended by substituting "1.5" for "0.15";
4. Tariff items 42820-1 and 62425-1 be amended by adding the phrase "n.o.p." as appropriate; and
5. The elimination of duty with respect to the goods classifiable under the items in recommendations 1 and 2 be effected in two stages over a period of one year.

EQUIPMENT FOR HANDICRAFTS AND RELATED ACTIVITIES

General Crafts

The reduction or elimination of customs duties and sales tax on equipment used in the production of handicrafts was requested by the Canadian Crafts Council, this being a federation of associations representing 26,000 craftsmen, more than half of whom could be described as hobbyists. In all, according to the Council, there are an estimated 1½ million craft hobbyists in Canada. The Council's submission was of a general nature, no attempt being made to argue the merits of individual crafts or pieces of equipment (except kilns), nor to distinguish between the needs of the hobbyists and those of the full-time craftsmen. Thus, it was argued that should the Board decide to recommend special treatment in relation to equipment used by hobbyists, similar treatment should be extended to equipment used by full-time craftsmen.

As the law presently stands, small manufacturers (of whom craftsmen form a part) are permitted, under the *Excise Tax Act* as amended by clause 11, Bill C-59 (June 29, 1978), to purchase production equipment free of federal sales tax. In addition, the Machinery Program of the Department of Industry, Trade and Commerce permits a remission of duty on some machinery with a minimum value of \$500 imported under tariff item 42700-1. The proposals put forward by the Crafts Council would extend the coverage of the Machinery Program to include all the production equipment outlined in Schedule III, Part XIII of the *Excise Tax Act*. The qualifying minimum value, it was suggested, should be \$125. In addition, the Council requested that the *Excise Tax Act* be amended to allow importers, wholesalers, manufacturers and distributors to sell production equipment free of sales tax to anyone, and not merely to small manufacturers, as at present. It was noted that under the Machinery Program, no restrictions are placed on purchasers, who may be either small manufacturers or hobbyists.

The distinction between hobbies and trades is blurred. Both hobbyist and full-time tradesman frequently use basically the same equipment and materials, and both often compete in the market place.

Hence the Board is not prepared to recommend any special treatment in relation to craft equipment generally, as proposed by the Canadian Crafts Council, either by way of end-use or *eo nomine* tariff items.

In another brief of a general nature, the Hobby Industry Association of Canada, on behalf of distributors of handicrafts, requested duty relief in respect of a miscellany of materials, tools and supplies stated to be not available from Canadian sources. Most of the articles in question (e.g. jute, glue, flavourings and dyes) have wide applications outside the hobby field; others (e.g. plastic models, electric trains and model rockets) are dealt with in other parts of this report; while some of the goods in both of these categories are apparently produced in Canada.

The Board has no specific recommendation to make in response to this submission.

Gem and Mineral Collecting and Crafting

The Board received requests for special tariff treatment for goods used in the study, collecting and crafting of gems and minerals. One brief commented that "rock hounding and its many facets is purportedly the most popular hobby in North America with the exception of fishing." Many of those who pursue this hobby are primarily interested in crafting stones from rough rock. Others produce jewellery and related articles by working in silver or gold, and some are interested in studying rock formations, prospecting and collecting specimens.

The Gem & Mineral Federation of Canada, with nearly 7,000 members engaged in one or more of these various facets of activity, requested the removal of tariffs on related machines, tools, apparatus, supplies, books and other reference materials. Among the more major items specified in the Federation's brief were hydraulic and mechanical rock splitters, diamond saws and blades, geiger and scintillation counters, grinders and grindstones, faceting machines and high power magnifiers, motorized polishers and buffers, centrifugal casting machines, cameras and film projection equipment. A similar, more limited request, with particular reference to lapidary equipment, lapidary supplies and metal-crafting supplies, was made by the Lapidary Rock & Mineral Society of British Columbia, totalling 1,800 members. It was claimed that most of the aforementioned goods are imported, mainly from the United States, although some unspecified items of lapidary equipment and findings were said to be manufactured domestically.

In support of its submission, the Gem & Mineral Federation claimed that the activities of "rock-hounds" provided a stimulus to the domestic economy by encouraging the use of resort facilities and by creating a demand for Canadian-made products such as recreational vehicles and trailers. It was stated that "rock shows held annually in major cities across Canada attract several hundred thousand visitors." The educational aspects of the hobby were also stressed, it being claimed that amateurs had made, and continued to make, significant geological and palaeontological finds in Canada. Lapidary was said to be "a great family hobby" spanning all generations. Finally, it was submitted that the duty-free entry of materials would serve to encourage the development in Canada of other related activities such as the manufacture of sanding belts and optical instruments.

In addition to requesting duty-free entry for all pertinent items of equipment, the Gem & Mineral Federation asked that the tariff nomenclature covering fossil materials, mineral specimens and cut, polished or otherwise worked stones should be rationalized because problems of interpretation and inconsistencies in customs administration have been encountered in this area. It was claimed that many of the aforementioned articles could be referred to under several names, each classifiable under a different tariff item. The Board notes that the Canadian *Customs Tariff* provides for the duty-free entry of mineral specimens under tariff item 69900-1. It also provides for the free entry under tariff item 64800-1 of precious or semi-precious stones and imitations thereof, not mounted or set.

During the hearings a case was not made that there existed equipment specifically required for this pastime and having no other application.

Therefore, the Board is not prepared to recommend any changes in the *Customs Tariff* with respect to equipment used by hobbyists in prospecting for, and collecting gems and minerals.

Further, while the items of lapidary equipment brought to the Board's notice are capable of being utilized by both professional craftsmen and hobbyists, the fact that they have commercial applications brings a different set of considerations to bear. Throughout this inquiry the Board has endeavoured to focus on equipment used by hobbyists in the pursuit of non-profit, leisure-time activities. It is the Board's understanding that many of the articles crafted by lapidarists are sold, which clearly seems to remove this activity from the non-profit making category.

Accordingly, the Board makes no recommendation concerning polished or otherwise worked stones or mineral or fossil specimens, and no recommendation concerning the lapidary equipment used for craft purposes. With respect to educational materials and equipment, it is noted that books are now allowed free entry as a result of the recent temporary removal of the 10 p.c. M.F.N. duty under tariff item 17100-1. The Board makes no recommendation in regard to other educational aids.

Other Handicrafts

Looms: A request for the maintenance of existing duties on manual weaving looms and accessories was received from Nilus Leclerc Inc., of L'Islet, Que., a producer claiming to carry the most complete line of manual looms in the world. The firm, which exports a substantial portion of its output to the United States and Europe, indicated the existence of at least three other manufacturers of manual weaving looms in Canada. Imports of hand looms are dutiable according to the component material of chief value, and would normally carry an M.F.N. rate of 15 p.c. or 17½ p.c.

In opposition to the aforementioned viewpoint, a communication received from the Guild of Canadian Weavers noted that while "there is a good loom built in Quebec ... some weavers prefer somewhat different styles of American design. Yarns duty-free or at reduced rates would certainly be welcomed by weavers."

Needlepoint Frames: These were specifically mentioned in the Minister's letter of reference, but no representations respecting these goods have been received by the Board.

Pottery Supplies: Mr. M. Ostermann of Toronto, a professional potter, requested duty relief in respect of cane handles required for use in the production of tea-pots, such handles being imported from England under tariff item 50600-1 ("manufactures of wood, n.o.p.") at a duty rate of 15 p.c.

In the same general area, Arnprior Ceramics, distributors, Arnprior, Ont., requested favourable tariff treatment for glaze used in the decoration of ceramic "greenware". Reference was also made to the "excessive tariffs" on clock movements, generally imported from Germany and the United States. These latter goods and electric wiring parts were stated to be used extensively in hobby ceramics.

Artists' Supplies: Such supplies, including water colour paints, were referred to in a submission from Whales Arts & Ceramics Ltd., Victoria, B.C.

Marquetry: Mr. Siegfried Klotsche of Edmonton requested the elimination of duty and sales tax on veneers imported for use in the hobby of marquetry. The United Kingdom and the United States were cited as the chief sources of supply. Duty rates, under tariff items 50700-1, 50705-1 and 50710-1, range from Free to 10 p.c.

In all the above instances, it would appear that the equipment used by hobbyists is indistinguishable from that used by professional craftsmen. For this reason, and also because in some instances Canadian production would be threatened, the Board is unwilling to recommend the reduction or elimination of existing duties.

RADIO APPARATUS

Amateur Radio Equipment

Representations to the Board for the removal of duty on amateur radio equipment have been made on previous occasions in connection with *Reference No. 123: Radio, Television and Related Products* and *Reference No. 134: Equipment for Hospitals and Other Institutions*. In its report under *Reference No. 123*, the Board recommended some tariff reductions on radio equipment generally, but did not propose that special provisions be made for the duty-free entry of amateur band radio equipment. In its report under *Reference No. 134*, published

in 1968, the Tariff Board indicated that it was not prepared in the context of that particular inquiry to recommend any further concessions in this area.

With respect to the present inquiry, submissions have been received from the Canadian Radio Relay League and the Canadian Amateur Radio Federation, as well as from a number of individual clubs, chapters of clubs, retail distributors and lone radio enthusiasts. No Canadian manufacturers contested the viewpoints therein expressed in favour of duty relief. These were presented cogently and indicated a high degree of unanimity among the petitioning parties.

The hobby of amateur radio communications is defined at the international level by the radio regulations of the International Telecommunications Union. At home, the activity (designated as the "amateur experimental service") falls within the scope of the *Radio Act* and supporting regulations. In order to operate an amateur radio station it is necessary to hold a certificate of technical competence (dependent upon the passing of written and practical examinations) and to possess a station operating licence. Both certificate and licence are issued by the federal Department of Communications.

As at October 1, 1978, there were approximately 19,400 licensed radio amateurs in Canada capable of communicating over long or short distances by voice, morse code or other means. The activities of these radio "hams" should be distinguished from those of the 843,000 "citizen band" operators, who are not required to pass examinations and are restricted by the power of their equipment to local communications. One further distinction brought to the Board's attention is that whereas the transmissions of the "citizen band" operators are confined to certain set crystal-controlled frequencies, designated portions of the radio spectrum have been set aside by international agreement for exclusive use by radio amateurs. As a corollary of this arrangement it is pertinent to note that major items of radio equipment designed specifically for use in connection with the amateur experimental service will function only in relation to the aforementioned portions of the radio spectrum (known as the "amateur bands").

The equipment required to operate an amateur radio station can, of course, have many configurations. For example, a basic transmitting and receiving station might comprise: receiver; transmitter (or transceiver combining the functions of both receiver and transmitter); antenna with supporting tower; transmission line; microphone, morse key or teletype key; speaker; power supply; and video display scope. To operate on the VHF band a mobile hand-held unit might be added. Some of the aforementioned items would be peculiar to the amateur experimental service; others would have more general application.

At one time, many radio amateurs built their own equipment from the basic components. However, radio technology has become so advanced in recent decades, with the advent of solid state technology, that only a few are nowadays able to design and construct present-day equipment. At the same time, the reduced availability of surplus military stores has meant a greatly lessened supply of cheap parts. Consequently, most amateur radio equipment these days has been either assembled from kits or purchased ready-made.

The retail cost of a basic operational station, at present-day prices, would appear to range between \$1,400 and \$2,000 in Canadian funds, duty and sales tax paid. Most of the equipment used by Canadian radio amateurs originates in the United States and Japan, with the United Kingdom, West Germany and Hong Kong providing subsidiary sources of supply. Imports are generally admitted under tariff item 44533-1 ("radio and television apparatus and parts thereof, n.o.p.") at a duty rate of 15 p.c., M.F.N. Receivers, transmitters and transceivers as well as certain other pieces of equipment (e.g. antenna) are classified under this item. There are, however, at least nine other tariff items (viz: 44506-1, 44508-1, 44524-1, 44532-1, 44536-1, 44540-1, 44544-1, 44603-1 and 46200-1) providing for individual pieces of equipment or components of possible relevance to radio communications.

So far as the Board has been able to ascertain, there are no Canadian manufacturers of receivers, transmitters or transceivers designed specifically for amateur bands usage. It is understood that Lindsay Specialty Products Ltd., Lindsay, Ont., a commercial antenna manufacturer, has recently commenced the production of suitable amateur antennae. Other domestic producers make various other radio accessories and components, although not specifically for the amateur bands.

Requests for relief from duty were expressed in two main propositions: an *eo nomine* tariff item whose nomenclature would cover specifically described products, and an end-use item specifying either the use of the equipment or the user of the equipment. Some briefs also requested an exemption from sales tax. Generally, the proposed nomenclature for the *eo nomine* item covered transmitters, receivers and transceivers. Additional equipment was included in some of the briefs but was only described as "accessories and test equipment". In all cases emphasis was placed upon equipment designed with reference to the amateur bands. In addition, some submissions requested that the nomenclature include equipment in kit form as well as completely assembled.

Requests for tariff relief were based upon a variety of considerations. It was pointed out to the Board that in accordance with the General Radio Regulations, amateurs are "duly authorized persons interested in radio technique with a personal aim and without pecuniary interest." Great stress was laid upon the public service aspect of the hobby and the fact that radio amateurs constitute a reserve of trained communications personnel on call in emergency situations. It was also claimed that amateur radio operators, through their experimental role, serve to advance technology, with consequent benefits to society and the economy. At the same time, the potential industrial supply of skilled electronics technicians and engineers is increased. It was further suggested that amateur radio communications is a particularly suitable pastime for blind or otherwise physically-handicapped persons. At the international level, such communications serve to foster goodwill and greater understanding among nations.

On the issue of protection, it was argued that the existence of tariffs had done little to promote the manufacture of amateur radio equipment in Canada and that market considerations make it most unlikely that such an activity

will develop, at least on any significant scale, in the future. Furthermore, it was pointed out that the United States, which has an amateur radio equipment industry to protect, has generally lower pertinent M.F.N. rates of duty (6 p.c. and 10.4 p.c. under TSUS 685.25 and 685.24). It was variously estimated that the federal government would lose between \$250,000 and \$380,000 in gross revenues should import duties and sales taxes on major items of amateur radio equipment be abolished, the point being made that this cost would be small in relation to the benefits conferred. On behalf of distributors it was asked that any reduction or elimination of duties should be phased so as to minimize the impact on the value of stocks in hand. A preferred alternative mentioned by Glenwood Trading Company Ltd., Vancouver, would be a refund of duty paid on stocks in inventory.

The Board is of the opinion that a strong case has been made for the special tariff treatment of major items of radio equipment identifiable as being for amateur bands usage and not made in Canada. The hobby of radio communications has a public service aspect which sets it apart from all other leisure activities reviewed by the Board. In addition, it is a skill-oriented pastime, and for this reason also is worthy of special consideration.

Accordingly, the Board recommends that:

1. A new item be inserted in Schedule "A" of the *Customs Tariff* providing free entry under the B.P. and M.F.N. Tariffs for:

"Transmitters, receivers and transceivers, designed for use only on the amateur bands of the radio frequency as defined by government regulations"; and

2. The elimination of duty with respect to goods classifiable under the item in recommendation 1 be effected in two stages over a period of one year.

General Radio Service Equipment

In addition to supporting duty relief with respect to amateur radio apparatus, the Leaside Radio Club, Leaside, Ont., also proposed a lowering of tariffs on General Radio Service ("citizen band") equipment. Such equipment has both hobby and commercial applications in situations where short-distance communication is required. Like the radio "hams", the CB operators may perform useful voluntary community services.

However, because of the impossibility of determining the end-use to which imported GRS equipment will be put, the Board is unable to recommend in favour of tariff relief in this instance.

Short Wave Radio Receivers

The Board received a request for duty relief in relation to short wave radio receivers from the Ontario DX Association, describing itself as "a club of short wave and medium wave listening enthusiasts." The Association stated that the activity of such enthusiasts involves listening to broadcasts from other nations and thus helps to foster international friendship, cooperation and understanding.

Short wave receivers are radio sets which devote a majority of their frequency coverage to short wave frequencies. Such receivers are readily available to the general public in Canada, although not apparently from domestic production. However, many ordinary radio sets (including those produced in Canada) have the capability of receiving short wave broadcast stations.

Accordingly, the Board can see no reason for singling out short wave radio receivers as worthy of different treatment from other radio sets, or indeed, record players, stereo sets, etc., all designed for the listening pleasure of the owner. It is not, therefore, prepared to recommend any special tariff treatment in this area.

WEAPONRY

The Canadian Black Powder Federation made representations on behalf of those whose hobby is shooting with weapons using black powder ammunition and sought free entry for a wide range of goods used in this hobby. In recent years, another hobby has been the re-creation of historic military units, equipped with the original uniforms and weapons or reproductions thereof; the Board received representations from the 84th Regiment of Foot, Royal Highland Emigrants, Regimental Association, Ottawa, and from the King's Royal Yorkers, Museum of Applied Military History, King, Ontario. Submissions relating to firearms were also received from Lever Arms Service Ltd., Vancouver, B.C., Mr. Douglas Hough, Vancouver, B.C., Mr. Rudy Schulze, doing business as International Imports for Competitive Shooting Equipment, Waterloo, Ont., and Mr. D.J. Norris, South Surrey, B.C.

The Canadian Black Powder Federation, in briefs submitted by spokesmen in Port Moody, B.C., and Edmonton, Alta., sought free entry for:

1. Original muzzle-loading guns and replicas, and modern manufactured muzzle-loading guns; and parts thereof, such as locks, barrels, stocks, springs and ramrods;
2. Other black powder firearms using cartridges, and parts such as lock mechanisms and trigger mechanisms;
3. Loading equipment for rifle and shot shells; and

4. Shooting components such as percussion caps, flints, powder, powder measures, powder and shot flasks.

The military units expressed interest in uniforms, weapons and accoutrements, especially flintlock muskets. Both groups indicated that much of what they require is not available from Canadian sources and must be imported, principally from the United States, although some goods are available from Britain, Japan, Italy and other countries. In all cases free entry was sought, usually on the ground of non-availability in Canada, although it was pointed out by military units that the uniforms and some of the accoutrements could be made by the individual members.

Uniforms would, at present, be dutiable under the textiles schedule, usually at rates in excess of 20 p.c. Other accoutrements and weaponry not specifically named in the tariff would be dutiable according to the component material of chief value, at rates ranging up from 15 p.c. The principal relevant tariff items relating to firearms and ammunition are as follows:

		<u>B.P.</u>	<u>M.F.N.</u>	<u>Gen.</u>	<u>G.P.</u>
93601-1	<i>Propellant powder</i>	5 p.c.	10 p.c.	20 p.c.	5 p.c.
44100-1	<i>Guns, rifles, including air guns and air rifles not being toys; muskets, cannons, pistols, revolvers, or other firearms, n.o.p., cartridge cases, cartridges, primers, percussion caps, wads or other ammunition, n.o.p.; bayonets, swords, fencing foils and masks; gun or pistol covers or cases, game bags, loading tools and cartridge belts of any material</i>	10 p.c.	20 p.c.	30 p.c.	10 p.c.
44125-1	<i>Guns and rifles of a class or kind not made in Canada; parts thereof....</i>	Free	7½ p.c.	30 p.c.	Free

It will be noted that while guns and rifles of a class or kind not made in Canada enjoy lower rates under the last named item, this does not apply to the other goods listed in tariff item 44100-1, including muskets.

With regard to firearms, Lever Arms Service Ltd. indicated support for the 50-year rule and noted that weapons produced after 1898 would have to comply with provisions of the *Criminal Code* with respect to import licences. No mention, however, was made in this or any other submission of the relevant prohibitory provisions of item 99220-1 in Schedule "C" of the *Customs Tariff*, which did not appear to cause any concern to any of those making representations on firearms.

Mr. Rudy Schulze sought to ensure that highly sophisticated target rifles, and the absolutely necessary accessories for use therewith, should be

dutiable at 7½ p.c., the rate applicable to guns and rifles of a class or kind not made in Canada.

Mr. Hough proposed that a separate free entry provision should be made for original and replica non-fixed cartridge arms and parts thereof, whether in kits to be constructed by "the more keen and eager hobbyist" or fully assembled. His submission also contained proposals that free entry be accorded to "primers, propellant powders and related components relevant to the reloading or loading of small arms" and to "limited edition Commemorative firearms" which, although functional, are intended for collectors and not for use. He suggested that none of these changes would affect Canadian producers, that they could assist collectors and hobbyists and stimulate sales of closely related supplies used by enthusiasts.

Mr. Norris was concerned with primers, gunpowder and shell-loading equipment. He pointed out that reloading components for rifles, shotguns and handguns are to a certain degree interchangeable and should all be treated alike. He further indicated his belief that as none of these is made in Canada, duty-free entry would help the hobbyist or the sportsman, whether interested in reloading or in shooting or both, without harming Canadian manufacturers. It would add an incentive for the user to purchase in Canada rather than abroad, with resultant benefits to Canadian service, transportation and storage industries.

In support of their case for free entry, the Canadian Black Powder Federation pointed to the educational and recreational nature of the activity in relation to the history and use of a class of firearms that became obsolete at the turn of the century and to the development of skills in rebuilding or re-creating such firearms. Similar considerations were advanced by the military units which, often in conjunction with museums or other bodies, participate in re-creations of historical events. Both groups indicated that their activities and membership were restricted by costs of equipment, which often had to be imported.

The Board finds some merit in these representations, but notes that most of the older equipment can now enter free of duty under the 50-year limit. Regardless of age, such equipment can be imported free of duty when for exhibit in a public museum. Considerations concerning limited editions are discussed elsewhere in this report. While it is not prepared to recommend relief on a wide range of goods, the Board feels that some assistance could be afforded by a broadening of the scope of tariff item 44125-1, without altering the rates of duty.

The Board, therefore, recommends amendment of tariff item 44125-1 to read:

"Guns, rifles and muskets, of a class or kind not made in Canada; parts thereof."

EQUIPMENT FOR OUTDOOR RECREATIONAL ACTIVITIESScuba Diving Equipment

Scuba is the acronym for "Self-Contained Underwater Breathing Apparatus". The Board received submissions concerning this equipment from manufacturers, importers and retailers, as well as users. Among those making representations were the Association of Canadian Underwater Councils (ACUC), Vanier, Ont., a member of the Sports Federation of Canada; the National Association of Underwater Instructors (NAUI), Etobicoke, Ont.; the Association of Canadian Dive Stores (ACDS), Brantford, Ont., a national organization comprising some 200 retail outlets for scuba diving equipment; the Association of Canadian Diving Manufacturers (ACDM), consisting of Fitz-Wright Manufacturing Ltd., Surrey, B.C., and seven other companies making diving suits and accessories; and Eldon Industries of Canada Inc., Don Mills, Ont., manufacturers and importers of scuba and skin diving equipment.

According to the Association of Canadian Underwater Councils, which represents Canadian scuba divers on the *Confédération Mondiale des Activités Subaquatiques* (CMAS), there are approximately 250,000 Canadian scuba divers, of whom 100,000 pursue this activity frequently, and 75,000 dive on vacation each year. The rate of growth of this hobby is difficult to judge. The National Association of Underwater Instructors trained 8,547 divers in all categories in 1976. In 1977, the same number was trained, and a slight increase in the number of trainees was forecast for 1978. The Association of Canadian Dive Stores indicated that a large number (over 50 per cent) of qualified divers drop out of diving shortly after becoming qualified. They qualify on rented equipment and receive instruction arranged through Canadian retail outlets interested in selling the equipment. However, the price of equipment is such (approximately \$1,250) that young divers cannot afford to purchase it. Subsequently, when they become more financially secure, ten to twelve years later, 5 - 10 per cent return to diving. Overall the Board gained the impression that this activity was increasing in popularity.

The basic equipment for scuba diving is comprised of compressed air tanks, a regulator, fins and masks. To improve the diver's safety, however, submissions to the Board indicated that other equipment should also be used. A capsule description of how and what equipment is used was contained in a brief presented to the Board by Naomi Jackson, a retailer in Calgary:

"Various types and styles of equipment are available but basically every diver wears the same gear: a protective suit to provide insulation against the chilling of the water, weights and weight belt because the suit gives him added buoyancy, a mask so he can see underwater, fins to propel the added weight and bulk, an air tank and regulator to supply breathing air, and a buoyancy compensator to control his buoyancy and provide a safe surface platform. Then since water has not been marked he needs a depth gauge,

water all looks the same so he needs a compass, his air is limited so he needs an air-time monitor of some type, and a knife in the event some frustrated fisherman left invisible nylon line along his path."

While some of this equipment would appear to have other uses than in scuba diving, most of it is specially designed and developed for use under water. The scuba regulators are different from those used for fire-fighting in that they have to be able to withstand a salt water environment and corrosion resulting from the electrolysis occurring between dissimilar metals in a saline solution. The rubber used in diaphragms and seals must be manufactured with properties that will prevent drying and cracking. ⁽¹⁾

The Board was informed that Canadian production in this area consists of diving suits and accessories such as hoods, boots, gloves, carrying bags and weight belts, masks, fins, snorkles, and back packs for cylinders. Furthermore, Fitz-Wright Manufacturing Ltd., indicated that it was proposing to enter into the manufacture of divers' life vests and buoyancy compensators. On the other hand, there are apparently no Canadian manufacturers of aluminum and steel cylinders for use by scuba divers, or of regulators, combination buoyancy compensators and harnesses, diving gauges, and instruments for the measurement of depth, pressure, temperature and direction.

Some figures relating to imports in 1976 were reproduced in the Board's document *Background No. 1*, dated March 1, 1978. Figures for 1977 are now available - viz:

Value of Imports of Scuba Diving Equipment
By Commodity Class, 1977

<u>Commodity Description</u>	<u>Value</u> \$'000	Tariff Items Commonly Applied(a)	<u>Rates of Duty</u>			
			<u>B.P.</u> p.c.	<u>M.F.N.</u> p.c.	<u>Gen.</u> p.c.	<u>G.P.</u> p.c.
832-80 Underwater, diving and swim equipment and parts	2,838					
-20 Fins, diving equipment	366	61800-1	15	17½	27½	11½
-30 Goggles, swimming	553	32700-1	17½	17½	30	11½
		61800-1	15	17½	27½	11½
-40 Hoses, underwater breathing apparatus	153	61800-1	15	17½	27½	11½
		93907-1	15	17½	30	11½

(1) Transcript, November 16, 1978, p. 67.

<u>Commodity Description</u>	<u>Value</u> \$'000	Tariff Items Commonly Applied(a)	<u>Rates of Duty</u>			
			<u>B.P.</u> p.c.	<u>M.F.N.</u> p.c.	<u>Gen.</u> p.c.	<u>G.P.</u> p.c.
832-80-50 Cylinders, air, under- water breathing ap- paratus	773	various				
-90 Underwater diving and swimming equipment and parts, n.e.s.	993	various				

(a) Not an exhaustive listing.

These imports were mainly from the United States except for goggles, where Japan was the major supplier. The Canadian retail market for imported scuba equipment can be estimated from these figures. Assuming that all imports were valued at the dealer's purchasing price and that the average rate of duty was $17\frac{1}{2}$ p.c., and allowing for a federal sales tax of 12 p.c. and a mark-up of 30 p.c., the retail market for imported equipment was about \$4.7 million in 1976 and \$4.9 million in 1977.

It will be noted that there is no single tariff item that specifically covers scuba diving equipment. Equipment is entered as "spectacles" under tariff item 32700-1, as "manufactures of rubber" under item 61800-1, or as "manufactures of plastics" under item 93907-1.

The Board was advised by the manufacturers of diving suits that the duty-free admission of rubber materials under temporary tariff item 61840-1, while maintaining the protection on suits themselves, had been extremely beneficial and that, in terms of price and quality, Canadian suits sell competitively with imports. The ACDM also pointed out that specially designed gas-tight zippers are required to ensure the seal of the air-filled dry suits which are more suitable for the cold Canadian underwater environment. Free entry was requested for this reportedly expensive component. Since the hearing, under temporary tariff item 45131-1, the M.F.N. rate of duty on these zippers has been reduced from $22\frac{1}{2}$ p.c. to 10 p.c.

Both the Association of Canadian Diving Manufacturers and Eldon Industries Inc., submitted that items of scuba diving equipment currently manufactured in Canada, or capable of being so manufactured, should not be candidates for duty relief. On the other hand, both agreed that duties should be reduced or eliminated on other pertinent items. The ACDM expressed the hope that it would be consulted prior to decisions to effect duty reductions in this general area.

In essence, the stated position of the retailers, as represented by the Association of Canadian Dive Stores, differed little from that of the domestic manufacturers. Thus, the retailers were not opposed to the maintenance of protection in relation to the products of the diving suit industry, the opinion

being expressed that Canadian-made suits are "second to none". Comments in regard to other domestically-produced articles, especially fins, masks and snorkels, were less laudatory but the ACDS took the position that "while design and quality-wise they do not qualify for Scuba use, it is sincerely hoped that advances in design and quality will be made in the foreseeable future and, accordingly, the Tariffs should be maintained in anticipation of such advances." It was estimated with respect to such goods that Canadian production accounted for possibly 5 per cent of the domestic market. Other items of scuba diving equipment, not manufactured in Canada, were proposed by the ACDS for duty-free entry. These items were specified as: tanks (cylinders); regulators; pressure and depth gauges and all other mechanical and electrical instruments; buoyancy compensators and combination buoyancy compensators and tank supporting back packs; underwater illumination devices; high pressure air compressors; and underwater cameras, accessories and parts for underwater photography.

The ACDS argued that scuba diving is a unique hobby of a non-profit nature, although the equipment can be used, and is used, by some individuals or organizations for the purpose of earning income. However, the amount of equipment used in this manner is felt to be extremely small compared to total scuba diving activity. Most commercial underwater activity and underwater physical construction work is carried on through the use of surface air being fed to the diver via an air line, which requires different equipment.

According to the ACDS, removing the duty on scuba diving equipment would lead to increased tourism, particularly by American divers, would increase retail trade by encouraging both Canadians and foreign visitors to purchase their equipment in Canada and, by providing a basis for market growth, would result in increased production in this country. The revenues lost in the form of customs duties and sales taxes would be recouped from other taxes on increased economic activity in Canada.

Certain importer-distributors pointed out that duty reductions should be carried out in such a way as to avoid harm to distributors and dealers holding duty-paid stocks, who would suddenly be faced with competition from duty-free goods. In this regard, Eldon Industries requested that any change-over be carried out during the period December 1 to January 1, and that little or no advance notice be given in order to prevent customers from delaying their purchases.

Much of the same equipment was the subject of a proposal, supported by several Canadian retailers, received from the Canadian representative of Scubapro, Lummi Island, Wash., a United States manufacturer of scuba diving equipment. It suggested that retailers licensed by provinces or municipalities should be allowed to benefit from a reduction in duty rates while current rates would be maintained on imports by users. Scubapro suggested that its proposals be implemented for an experimental period of five years. The reduced rate would be established at 5 per cent, to cover the costs of administration of the plan. Scubapro advanced arguments in support of its plan similar to those put forward by the ACDS. It added that the plan would allow divers to purchase less expensive and safer equipment and discourage smuggling.

The hobbyists themselves, as represented by the ACUC, were primarily concerned with the safety aspect of scuba diving. It was argued that if the duty were eliminated on certain equipment which happens not to be made in Canada, divers would find it easier to purchase safer goods. The Board was reminded that during the 1978 Canadian diving season there had been 19 fatalities reported. The ACUC proposed removal of duty on English-language training books and asked that these be granted the same consideration as other books and be admitted free of duty. The ACUC also requested that the duty be removed from high pressure air compressors, special filtering elements, and high pressure air tanks. As a result of its annual testing of the purity of air being pumped from compressor installations, it was the ACUC's judgement that 45 per cent of the compressor installations inspected were of poor quality.

The arguments summarized above are only a representative sample of the many presented. In general, the Board agrees that some scuba diving equipment should be free of duty. In the case of the Canadian production of rubber goods, protection should be maintained.

The Board is prepared to recommend duty reductions for safety assistance related equipment. It does not, however, propose to include the buoyancy systems as such. A provision for support harness, with or without buoyancy devices (but excluding backpacks for cylinders, which are made in Canada), would allow free entry for full buoyancy systems such as those described at the hearings while still affording protection to individual inflatable dry suits or vests which Fitz-Wright, for example, claimed would soon be manufactured domestically. Underwater illuminating devices and underwater cameras are also omitted, not being specifically identifiable as parts of the life support and safety equipment used by scuba divers. The recent removal of the 10 p.c. M.F.N. duty under tariff item 17100-1 has solved the reference book problem.

With respect to air compressors, the Board is sympathetic to the petitions of the ACUC and ACDS, but considers this equipment to be outside the scope of the reference.

In the opinion of the Board it would be consistent with the existing provision for free entry for chloroprene sheets under tariff item 61840-1 to recommend duty-free treatment for special zippers for dry diving suits when imported by manufacturers.

Accordingly, the Board recommends that:

1. A new item be inserted in Schedule "A" of the *Customs Tariff* providing free entry under the B.P. and M.F.N. Tariffs for:

"Scuba diving equipment, namely: scuba tanks, scuba regulators, electronic or mechanical scuba instruments, and scuba support harness with or without buoyancy devices but not including backpacks for cylinders";

2. Temporary item 45131-1 be made statutory, the duty provisions being adjusted to provide free entry under the B.P., M.F.N., and G.P. Tariffs and a rate of 25 p.c. under the General Tariff.
3. The elimination of duty with respect to the goods classifiable under the item in recommendation 1 be effected in two stages over a period of one year.

Parachute Devices

The Board received submissions and heard representations concerning the equipment used by those whose hobby is parachute jumping, from the Canadian Sport Parachuting Association (C.S.P.A.) and from Irvin Industries Canada Ltd.

The C.S.P.A., which has approximately 5,000 members, belongs to the Sports Federation of Canada. It is the national governing body for 100 clubs and the 12 commercial centres in Canada where students can take parachuting lessons for a fee.

The Parachuting Association requested relief from duty on automatic opening devices. An A.O.D. is a barometrically operated instrument pre-set to activate the parachute at a given altitude, if the parachutist fails to do so. Most models on the market work both on the basis of altitude and on the parachutist's rate of descent, that is, the A.O.D. will only fire if the parachutist goes through the pre-set altitude at a speed in excess of a fixed rate of descent. The C.S.P.A. provided the Board with a list of automatic opening devices for use by sport parachutists, all originating in the United States or Czechoslovakia. In early 1978 the unit price of the equipment ranged between \$270 and \$450 in Canadian funds, duty and sales tax paid.

There is no specific provision in the Canadian *Customs Tariff* for such automatic opening devices. When imported, the A.O.D.s would appear to fall under tariff item 44524-1, the general tariff item for electrical apparatus, or, in the case of spring-activated devices, under the item providing for manufactures of the component material of chief value - if iron or steel, this would be item 44603-1.

The C.S.P.A. requested that the *Customs Tariff* be amended to provide for the duty-free treatment of automatic opening devices (be they electrical or mechanical in operation). The C.S.P.A. argued that as A.O.D.s are not manufactured in Canada, duty-free treatment would have no adverse effect on Canadian industry.

Irvin Industries Canada Ltd. is a Canadian manufacturer of parachutes and automatic opening devices. It has been designing and manufacturing parachutes for over 50 years and has recently produced the Hitefinder automatic parachute release, an A.O.D. developed and manufactured in the United Kingdom. The

Hitefinder is a device which is sold to the military and, as such, is exported to several countries. Its retail price is more than \$600 U.S. funds.

Irvin Industries Canada Ltd. argued that the *status quo* should be maintained insofar as the tariff classification of A.O.D.s is concerned. However, automatic opening devices can prevent the loss of life and those sold for use by sport parachutists do not compete directly with the Hitefinder manufactured by Irvin Industries Canada Ltd.

Therefore, the Board recommends that:

An item be inserted in Schedule "A" of the *Customs Tariff* providing free entry under the B.P. and M.F.N. Tariffs for:

"Parachutists' automatic warning devices; automatic opening devices for auxiliary parachutes."

Mountain Climbing Equipment

The Board received submissions on mountain climbing equipment and related gear from the Alpine Club of Canada, *La Cordée*, the *Fédération Québécoise de la Montagne*, Mountain Equipment Co-op and Mr. Ernest Y. Maitland of Burnaby, B.C.

Canadian mountain climbers are organized in various clubs and number approximately 10,000. The largest club is the Alpine Club of Canada (ACC), which has been in existence since 1906 and has a membership of 4,000. The club organizes mountain climbing and ski mountaineering camps annually, and encourages expeditions to remote areas of Canada and other parts of the world. It operates a system of huts, mainly in the mountains of western Canada, for use by its members and other climbers. The club also maintains a mountaineering library, housed in the Archives of the Canadian Rockies at Banff, and publishes a journal and various guidebooks. In addition to the main office at Banff, the club has sections in nine locations across Canada.

The ACC represents Canada on the Safety Committee of the *Union Internationale des Associations d'Alpinisme* (UIAA), Geneva, and is also a member of the Sports Federation of Canada. The *Fédération* is concerned with activities of the same nature for mountain climbers from the province of Quebec. The *Fédération* presented a brief jointly with the co-operative store, *La Cordée*, which claimed to be the largest importer-distributor of mountain climbing equipment in Canada. Mountain Equipment Co-op also is a co-operative store, on the West Coast.

The ACC and the *Fédération* provided the Board with lists of the equipment used in mountain climbing; these included approximately thirty items specifically designed and approved by the UIAA, which establishes the international

safety standards for mountain climbing equipment. The Board was requested to recommend an *eo nomine* item to provide duty-free entry for such equipment.

The ACC made a distinction between this equipment, which it feels will not be produced in Canada because of the small market demand, and other articles such as tents, sleeping bags, hiking boots, skis, ski poles and down clothing, which have wider applications and are produced in this country. On the other hand, the *Fédération*, *La Cordée* and Mountain Equipment Co-op variously asked the Board to recognize that the boots, sleeping bags and tents used for mountaineering have special features which are not required for other uses. They sought some relief from duty because these features are not incorporated in equipment made in Canada.

The Board agrees that the safety of climbers in this high-risk activity would be served by reducing the duty on certain highly specialized mountaineering equipment that is not, nor is likely to be, produced in Canada. It foresees, however, considerable difficulties if special tariff treatment were to be extended to items having special features but other possible uses.

For these reasons, the Board recommends that:

1. A new item be inserted in Schedule "A" of the *Customs Tariff* providing free entry under the B.P. and M.F.N. Tariffs for:

"Mountaineering equipment designed and manufactured to the standards of the *Union Internationale des Associations d'Alpinisme*, namely: protective helmets, climbing harnesses, ropes and tubular webbings, clips, carabiners, chocks, nuts, angles, bongs, belay plates, bars, rings, ascenders, descenders, ice screws and snow plates, pegs, hooks, rescue pulleys, pitons, piton hammers, ice and rock picks and axes, crampons, beacons and avalanche probes; all the foregoing under such regulations as the Minister may prescribe";
and

2. The elimination of duty with respect to the goods classifiable under the item in recommendation 1 be effected in two stages over a period of one year.

Equipment for International Amateur Athletes

The Sports Federation of Canada, on behalf of 66 sports-governing bodies which comprise its membership, requested that the *Customs Tariff* be amended to provide for a remission of customs duties paid on the importation into Canada of sports equipment and related ancillary educational and training materials (including printed matter, slides and films). This remission would

apply to goods not available from Canadian production, which are imported into Canada by the duly accredited national sports-governing bodies, whether or not members of the Federation, for use by coaches and athletes training for, or engaged in, international competition.

The Federation recommended the establishment of a Sports Equipment Advisory Board similar to that established to administer the Machinery Duty Remission Program to determine whether or not equipment is available from Canadian production. The proposed Board would be composed of a representative from Fitness and Amateur Sport and representatives from the Departments of Industry, Trade & Commerce and National Revenue.

The Minister's letter of reference excluded sports equipment generally used by the public for recreational purposes, e.g. skis, golf clubs, hockey equipment, fishing and hunting gear. On this ground, the Board might have considered the Federation's submission to be outside its terms of reference. However, the specialized equipment used in international competition is very different from that referred to by the Minister and the Board therefore decided to consider the Federation's representations.

The Sports Federation of Canada, although it receives grants from the Government of Canada, is an autonomous body. There are approximately seven million Canadians, including athletes and volunteers, who are involved in the sports represented in the Federation. There are in that group perhaps 600 athletes who are recognized as having attained a world level of competition. These might be described as being the "elite" athletes that Canada sends to the Olympics, the Pan-Am Games, the Commonwealth Games or other world championships. There are perhaps some 3,000 additional athletes aspiring to attain that level.

The Federation submitted to the Board a list of the types of equipment used in the various sports, together with some indication of the types of goods that are made in Canada. Among those which must be imported are such diverse items as canoe and kayak paddles, equestrian saddles, most fencing weapons and clothing, and table tennis bats and balls. To provide even an approximation of the value of the equipment imported for use by Canadian world-class athletes is impossible because importations of athletic equipment are not classified in accordance with the type of end-user. At present the equipment is dutiable under various tariff items in the Canadian *Customs Tariff*.

The Sports Federation of Canada argued that in addition to improving the performance of Canadian athletes already of international calibre, the budgetary savings to the teams and clubs involved could assist in the training of more such athletes. As Canadian athletic performance at the international level improved, the level of participation by other Canadians in sporting and fitness activities of all kinds would increase. The "demonstration effect" of international events such as the Montreal Olympics and the recent Commonwealth Games has been verified by the increased participation of Canadians in sports activities,

as shown by the registration figures of the sports clubs in Canada. This increase should result in an expanded demand for equipment with attendant benefits to Canadian manufacturers, particularly those producing sporting and fitness equipment for the mass market. The spin-off benefits to Canadian society and to the national economy of a healthier and fitter Canadian public have been acknowledged in recent years by the federal government in a number of ways, including the designation of a full-time Minister of State for Fitness and Amateur Sport to oversee and coordinate the government's expanding programs in this vital area.

The Board agrees that sports equipment not available from Canadian production should be permitted duty-free entry into Canada in order to assist internationally competitive amateur athletes to compete on an equal basis. It does not, however, agree with the proposed remission procedure, which would require the setting up of yet another administrative body costing perhaps as much as would be saved by Canadian athletes. The Board is also reluctant to recommend special tariff treatment for an open-ended spectrum of educational and training equipment likely to include audio-visual aids and apparatus of all kinds.

The Board therefore recommends the following end-use item that would place the onus of certification upon the associations of the Sports Federation of Canada, under such regulations as the Minister of National Revenue may prescribe:

"Sports equipment, clothing and footwear certified by associations of the Canadian Sports Federation as being required by athletes of world calibre qualifying to represent Canada at international competitions, under such regulations as the Minister may prescribe."

Free Entry all tariffs

Other Sports Equipment

Archery: The Minister of Finance provided the Board with a copy of a letter he had sent to the Secretary-Treasurer, the Manitoba Archery Association in response to a request for the removal of the import duties applied to arrows used in pole archery. The Association was informed of the existence of the reference, but made no submission to the Board.

Football: The Board also received submissions from the Renfrew-Burnaby Heights Football Club, Vancouver, B.C., and the Canadian Amateur Football Association with respect to different types of football equipment.

The Board took the view that these goods were sports equipment of the types specially excluded from the reference by the Minister.

OTHER HOBBY EQUIPMENT

Astronomical Equipment

The Board received several briefs and oral representations requesting the reduction or elimination of duty on equipment used by hobbyists in the study of astronomy.

There is no estimate of the total number of astronomers in Canada. However, the entire membership of the Royal Astronomical Society of Canada, the major national organization of professional and amateur astronomers, is reported to be 2,000 persons. These are grouped into 17 local centres across the country. According to the presentations made to the Board, amateur astronomers, using comparatively modest equipment, undertake much of the necessary and routine observation of meteors, long-period variable stars and planets. The results of such studies are sometimes published in journals and used by professional astronomers.

The telescope is the major and most expensive piece of equipment used in this hobby. Telescopes used for astronomy can be distinguished from terrestrial-type telescopes (used for bird watching etc.) through the image they present. Astronomical telescopes provide an inverted picture, as the extra lens required to right the image would filter some of the light. Terrestrial telescopes are provided with the extra lens, as slight loss of light is not of equal concern. The Board was informed that reflector telescopes used by serious amateur astronomers will probably have mirrors or reflectors with a diameter in the range of 3 inches to 20 inches; refractor telescopes will have an objective lens with a diameter between 2½ and 8 inches. The Board understands from the brief submitted by the Royal Astronomical Society's London Centre, that, because of their limited capability, the mass-marketed items, such as the small inexpensive telescopes sold by various camera shops, appeal to very few hobbyists. The Halifax Centre indicated that a telescope of sufficient quality and power for serious astronomical use would not retail for less than \$250.

In view of the high cost of astronomical telescopes and accessories, some amateurs prefer to purchase parts for assembly. These parts will include mirrors, or mirror blanks for polishing, or mirror kits containing mirror blanks plus abrasive, pitch and a Foucault tester. Lens blanks may also be purchased, but the Board understands that this is less likely as the techniques required to prepare such blanks for use are demanding and not cost effective. A more complete listing of relevant parts, based upon information supplied by the London Centre is given below - viz:

- 1) Telescopes giving an inverted image.
- 2) Telescope mountings, equatorial, altazimuth and other.
- 3) Clock drives, slow motions and drive controllers.
- 4) Eyepieces, Barlow lenses, Schmidt cameras.
- 5) Setting circles, right ascension, declination and other.
- 6) Small and large lenses for telescope objectives.
- 7) Concave first surface mirrors up to twenty inches diameter.
- 8) Smaller, flat and convex first surface mirrors.
- 9) Circular and elliptical mirror blanks.
- 10) Lens blanks.
- 11) Eyepiece holders, spiders, mirror blanks.
- 12) Heavy pedestals for telescope support.

Most of the items listed above (including the Schmidt camera, which is used solely in astronomy for photographic observation) would appear to fall under tariff item 46200-1 as "instruments for observation", "optical instruments, n.o.p.", or "parts". Applicable rates of duty are $2\frac{1}{2}$ p.c., B.P. and G.P., and 15 p.c., M.F.N. Lens blanks and mirror blanks, on the other hand, qualify for duty-free entry under item 32633-1 as "glass shapes not further manufactured than rough cut or unwrought for use in the manufacture of optical instruments."

The Board is sympathetic towards the needs of those engaged in this worthwhile pursuit and is prepared to recommend tariff concessions for telescopes and parts of a kind used by amateur astronomers.

The Board makes no recommendation for lens blanks and mirror blanks which are not designated as telescope parts when imported as blanks. However, the Board does not attach an n.o.p. provision to the parts provision in order to ensure that articles which are identifiable as parts of telescopes will be classifiable as such.

Therefore, the Board recommends that:

Free entry be provided under the B.P. and M.F.N. Tariffs for:

"Astronomical telescopes having an objective mirror not less than three inches and not more than twenty inches in diameter or having an objective lens not less than two and one-half inches and not more than eight inches in diameter; mountings therefor; parts of all the foregoing."

Chess Time Recorders

There may be one million chess players in Canada, of whom some 3,000 are members of the Chess Federation of Canada. For members of the Federation and other tournament players special time-recording clocks are necessary since tournaments are governed by rules limiting the duration of play. These clocks

retail in Canada in the price range \$25 - \$80. They are not made domestically, being imported principally from West Germany, Switzerland and the U.S.S.R. There are no published statistics pertaining to importation, but the Board was informed that 200 - 500 pieces are imported annually. Such chess time recorders are presently classified under tariff item 36800-1 ("clocks, time recorders, clock movements, clockwork mechanisms, and clock cases") at an M.F.N. rate of duty of 25 p.c.

In view of the fact that the time recorders are not made in Canada and are necessary to pursue the game of chess at the tournament level, the Board is prepared to support the request for special tariff treatment.

Accordingly, the Board recommends that:

A new item be inserted in Schedule "A" of the *Customs Tariff* providing free entry under the B.P. and M.F.N. Tariffs for:

"Clocks and time recorders designed for use in the game of chess."

Pigeon Racing Equipment

The Canadian Racing Pigeon Union Incorporated advised the Board that there are approximately 3,000 pigeon fanciers across Canada, organized in clubs, with almost every club belonging to the CRPUI. The hobby of pigeon racing consists of training specially bred pigeons to fly set distances back to their lofts under competitive racing conditions. The related equipment for which duty relief is chiefly being sought consists of panniers to transport the birds, rubber leg bands, and specially designed timers or clocks; other items include supplies needed for breeding and rearing such as nest fronts, seamless metal leg bands and clay bowls.

It is understood that all of this equipment is imported from European countries, none being made in Canada. In order to obtain supplies at the lowest cost the CRPUI purchases in bulk and passes on the savings to its members. In 1978 the CRPUI purchased goods worth approximately \$62,000. These included some 100 timers imported from Belgium, Switzerland and Germany, countermarks and leg bands from Belgium and panniers from the United Kingdom. The pigeon timers, priced to the user at \$295 - \$385 in 1978, are the most expensive item of the pigeon fancier's equipment. The panniers retail for less than \$60, which is the price for a 30-bird basket.

The supplies associated with this hobby are generally classifiable for tariff purposes as follows:

<u>Commodity</u>	Tariff	Rates of Duty			
	Items				
	Commonly Applied(a)	B.P.	M.F.N.	Gen.	G.P.
		p.c.	p.c.	p.c.	p.c.
Pigeon timers	36800-1	15	25	35(b)	15
Panniers	62200-1	12½	20	40	12½
Pigeon countermark leg bands	61800-1	15	17½	27½	11½
Leg bands - aluminium	35400-1	15	17½	30	11½
Nest fronts - plastic	93907-1	15	17½	30	11½
Clay bowls	28205-1	12½	12½	22½	8
(Fired) clay bowls	28800-1	17½	20	35	13

(a) Not an exhaustive listing.

(b) Plus 50 cts. each.

The Board is prepared to recommend duty-free entry under the B.P. and M.F.N. Tariffs in respect of those items of equipment which can be clearly identified as being exclusively used in the hobby of pigeon racing - viz:

"Pigeon timers, panniers for transporting racing pigeons, and pigeon countermark leg bands."

No recommendations are made in regard to metal leg bands, nest fronts, clay bowls and other supplies having wider applications.

Billiard Tables

The Board received a submission from The World of Billiards (Ontario Billiard Supply Company Limited), Toronto, Ontario, "Canada's largest manufacturer of quality slate-bed snooker/pool tables and accessories" asking for the maintenance of import duties on these goods and for the removal of duties on associated raw materials, notably slate from Italy and Portugal. It was claimed that domestic manufacturers account for about only 8 per cent of the total sales of billiard items in Canada and need tariff protection in order to survive.

Billiard tables and related products are imported under tariff item 51805-1 at rates of duty of 17½ p.c. B.P., and 20 p.c. M.F.N.

The Board received no request for the removal of duty on these goods and proposes no change.

With respect to slate, the pertinent tariff item appears to be 31000-1 ("slate mantels and other manufactures of slate, n.o.p."), imports under both the B.P. Tariff and M.F.N. Tariff being at the rate of 17½ p.c. Temporary

tariff item 97028-1 under Schedule "B" of the *Customs Tariff* provided for a drawback of 99 per cent of duty payable on billiard table slate 3/4" in thickness or greater from February 26, 1974 to June 30, 1979.

The Board recommends that this provision be further extended.

Musical Instruments

A letter was received from M. Gilles Caouette, M.P., on behalf of amateur brass band organizations in Quebec, asking for duty relief in respect of musical instruments imported from the United States. Reference was made in the letter to the special treatment accorded under tariff item 69605-1 to musical instruments of a class or kind not made in Canada when imported for use in universities, colleges and schools.

This subject appears to be outside the scope of the present reference.

SUMMARY OF RECOMMENDATIONS

Throughout this report, the Board has set forth its tariff recommendations in terms only of the B.P. and M.F.N. Tariffs. Insofar as collectibles are concerned, it has been noted that the existing items usually grant free entry under all tariffs; this pattern has been followed in the recommended schedule. For hobby equipment, the Board has generally sought to reduce the General Tariff rate by the same number of percentage points as the recommended reduction in the M.F.N. rate in relation to the principal item(s) now applicable to the goods covered by the recommended items.

With respect to model equipment, amateur radio equipment, scuba diving gear and mountaineering equipment, the Board has been made aware of the possible effects of a sudden reduction in the rates of duties on the inventory values of importers, wholesalers or retailers holding stocks of duty-paid goods. The Board therefore recommends that in these instances the new rates of duty should be phased in and that for a one-year period after the introduction of the tariff items noted below there should be intermediate rates of duty.

The Board has also included certain recommendations with respect to sales tax and proposes that those collectibles which will be exempt from duty should also be exempt from federal sales tax; hobby equipment, on the other hand, would continue to be taxable on the same basis as at present.

SCHEDULE OF RECOMMENDATIONS

The Board recommends that:

1. Tariff items 69315-1 (as amended with effect from April 1, 1977) and 69210-1 be retained without change in wording or rates.
2. Schedule "A" to the *Customs Tariff* be amended by striking out tariff items 42820-1, 44125-1, 62425-1 and 69200-1, together with the enumerations of goods and rates of duties set out opposite those items and by inserting in the said Schedule with appropriate tariff item numbers, the following enumerations of goods and rates of duties:

	<u>British Prefer- ential Tariff</u>	<u>Most - Favoured - Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
I Coins or medals for collections under such regulations as the Minister may prescribe	Free	Free	Free	
G.P.T. rate to 30/6/84				Free

	<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
II Medals and other articles, which have been bestowed as trophy cups and other prizes (not usual mer- chantable commodities) won abroad in <i>bona fide</i> compe- titions, or donated by per- sons or organizations abroad for such purposes in Canada. The foregoing not to include medals, trophies or prizes which are regularly pre- sented by organizations or business companies to their members, employees or re- presentatives.....	Free	Free	Free	
<i>G.P.T. rate to 30/6/84</i>				Free
III Postage, revenue and other official stamps; official postal stationery; post- marked and philatelic covers	Free	Free	Free	
<i>G.P.T. rate to 30/6/84 . .</i>				Free
IV Automobiles and other motor vehicles produced more than twenty-five years prior to the date of importation; original parts or reproduc- tions thereof for use only in or on the foregoing; tires suitable only for mounting on such vehicles . .	Free	Free	Free	
<i>G.P.T. rate to 30/6/84 . . .</i>				Free

	<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
V Radio receiving sets, speakers and earphones, and parts thereof, produced more than thirty years prior to the date of importation, under such proof of age as may be required by the Minister	Free	Free	Free	
<i>G.P.T. rate to 30/6/84 . . .</i>				Free
VI Goods, the produce or manufacture of Canada, which have been exported therefrom, produced more than twenty-five years prior to the date of importation	Free	Free	Free	
<i>G.P.T. rate to 30/6/84 . .</i>				Free
VII Transmitters, receivers and transceivers, designed for use only on the amateur bands of the radio frequency as defined by government regulations	Free	Free	10 p.c.	
<i>G.P.T. rate to 30/6/84 . .</i>				Free
VIII Guns, rifles and muskets, of a class or kind not made in Canada; parts thereof . . .	Free	7½ p.c.	30 p.c.	
<i>G.P.T. rate to 30/6/84 . .</i>				Free
IX Scuba diving equipment, namely: scuba tanks, scuba regulators, electronic or mechanical scuba instruments, and scuba support harness with or without buoyancy devices but not including backpacks for cylinders	Free	Free	10 p.c.	
<i>G.P.T. rate to 30/6/84 . .</i>				Free

	<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
X Air-tight and watertight slide fasteners, the fabric portion thereof composed wholly of nylon or polyester yarns and coated with neoprene or butyl, with a meshed chain having a minimum transverse breaking strength of 14.5 kg per cm and a minimum pressure of 0.525 kg per cm ² for use in the manufacture of diving suits or marine survival suits	Free	Free	25 p.c.	
<i>G.P.T. rate to 30/6/84</i>				Free
XI Parachutists' automatic warning devices; automatic opening devices for auxiliary parachutes	Free	Free	12½ p.c.	
<i>G.P.T. rate to 30/6/84</i>				Free
XII Mountaineering equipment designed and manufactured to the standards of the <i>Union Internationale des Associations d'Alpinisme</i> , namely: protective helmets, climbing harnesses, ropes and tubular webbings, clips, carabiners, chocks, nuts, angles, bongs, belay plates, bars, rings, ascenders, descenders, ice screws and snow plates, pegs, hooks, rescue pulleys, pitons, piton hammers, ice and rock picks and axes, crampons, beacons and avalanche probes; all the foregoing under such regulations as the Minister may prescribe	Free	Free	12½ p.c.	
<i>G.P.T. rate to 30/6/84</i>				Free
XIII Sports equipment, clothing and footwear certified by associations of the Canadian Sports				

	<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
Federation as being required by athletes of world calibre qualifying to represent Canada at international competitions, under such regulations as the Minister may prescribe	Free	Free	Free	
<i>G.P.T. rate to 30/6/84</i>				Free
XIV Construction kits or sets and parts thereof; semi-finished castings, steam fittings and metal shapes; all the foregoing for making, assembling or repairing model trains, aeroplanes, boats, cars and other model articles manufactured to a reduced scale of the actual articles; plans for use with the foregoing	Free	Free	20 p.c.	
<i>G.P.T. rate to 30/6/84</i>				Free
XV Equipment designed to power or propel the model articles described in tariff item XIV, and parts thereof, including electric transformers, internal combustion engines, electric motors and radio transmitters, but not including internal combustion engines having a displacement of more than 1.5 cubic inches, radio transmitters of four channel or less nor model rocket engines or fuel	Free	Free	20 p.c.	
<i>G.P.T. rate to 30/6/84</i>				Free
XVI Air-cooled internal combustion engines of not greater than 1½ h.p. rating, n.o.p., and complete parts thereof	Free	15 p.c.	30 p.c.	
<i>G.P.T. rate to 30/6/84</i>				Free

<u>British Prefer- ential Tariff</u>	<u>Most- Favoured- Nation Tariff</u>	<u>General Tariff</u>	<u>General Prefer- ential Tariff</u>
--	--	---------------------------	--

- XVII Gasoline internal combustion engines, air-cooled, having a displacement of not more than 1.5 cubic inches, for use in the manufacture of model aircraft and model motor vehicles by manufacturers of such aircraft or motor vehicles in their own factories

Free Free 30 p.c.

G.P.T. rate to 30/6/84

Free

- XVIII Toy electric train sets, n.o.p., transformers, parts and accessories for use therewith, n.o.p.

5 p.c. 20 p.c. 40 p.c.

G.P.T. rate to 30/6/84

5 p.c.

- XIX Astronomical telescopes having an objective mirror not less than three inches and not more than twenty inches in diameter or having an objective lens not less than two and one-half inches and not more than eight inches in diameter; mountings therefor; parts of all the foregoing

Free Free 15 p.c.

G.P.T. Rate to 30/6/84

Free

- XX Clocks and time recorders designed for use in the game of chess . .

Free Free 15 p.c.

G.P.T. rate to 30/6/84

Free

- XXI Pigeon timers, panniers for transporting racing pigeons, and pigeon countermark leg bands

Free Free 15 p.c.

G.P.T. rate to 30/6/84

Free

3. The Customs Duties Reduction Regulations, as amended, be further amended by deleting therefrom tariff item numbers 42821-1 and 45131-1, together with the enumeration of goods, expiry dates and rates of duties set out opposite those numbers.

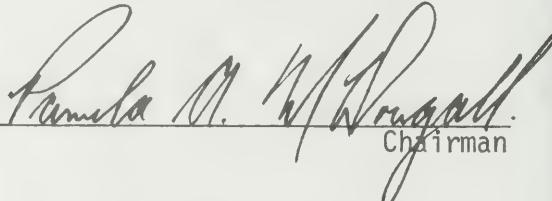
4. The enumerations of goods set out opposite numbers VIII, IX, XII, XIV and XV above be introduced with rates of duties intermediate between those now in effect and those recommended above, and that the rates recommended above be brought into effect one year later.
5. Consideration be given to the further extension of tariff item 97028-1 in Schedule "B" to the *Customs Tariff*.
6. Schedule "C" to the *Customs Tariff* be amended by striking out the enumeration of goods set forth opposite item 99215-1 and by substituting therefor, the following enumeration of goods:

Used or second-hand automobiles and motor vehicles of all kinds, manufactured prior to the calendar year in which importation into Canada is sought to be made:

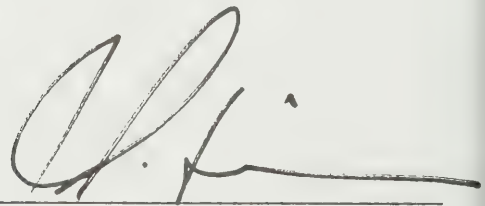
This item does not affect in any manner automobiles and motor vehicles,

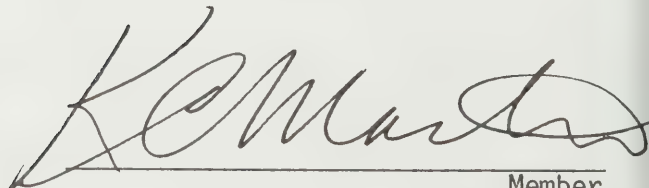
- (a) imported under tariff items IV, 70200-1, 70505-1, 70600-1, 70700-1 or 70800-1, or under tourists' or travellers' vehicle permits;
 - (b) imported by a *bona fide* settler on a first arrival but not entitled to entry free of duty under tariff item 70505-1;
 - (c) forfeited or confiscated for any offence under the Customs laws, or the laws of any province of Canada;
 - (d) left by bequest;
 - (e) exempted from the provisions of this item by a regulation of the Governor in Council in any particular case or class of cases.
7. Schedule "C" be further amended by striking out item 99218-1, together with the enumeration of goods set forth opposite that item.
 8. The Minister of National Revenue issue regulations defining "medals" for the purposes of tariff item I.
 9. Provision be made to continue the exemption from federal sales tax of the goods described in items I, II and III, whether domestic or imported, and to exempt from the said tax the goods described in items IV, V, and VI, whether acquired domestically or abroad.

The Board notes that the exemption from sales tax of automobiles more than twenty-five years old would automatically exempt them from the Excise Tax levied by paragraph 9 of Schedule I to the *Excise Tax Act*, by virtue of paragraph 13 of the said Schedule I.


Chairman


First Vice-Chairman


Second Vice-Chairman


Member

APPENDIX 1REFERENCE NO. 156: INTERESTED PARTIES

The following is a listing of organizations and individuals who either made submissions to the Tariff Board in connection with Reference No. 156 or otherwise participated in the Board's proceedings. Also included, under the heading of *General Age Issue*, are the names of the dealers who responded to the Board's survey on antiques and/or collectibles. For ease of reference, the listing is arranged by broad subject area in the same order as the text of the report. Several organizations and individuals interested in more than one aspect of the inquiry are featured more than once.

GENERAL AGE ISSUE

Aid Ltd., Halifax, N.S.
Alta Bank Antiques, Ottawa, Ont.
Antikes of the Ole Skool, Meductic, N.B.
Antique Gallery, Winnipeg, Man.
Antiques & Bric-A-Brac by Selim, Winnipeg, Man.
Antique Shop, Saskatoon, Sask.
Antiquite La Maison Canadienne, Lauzon, Que.
Attic Antiques, The, St. John, N.B.
Baron, H. Inc., Montreal, Que.
Bashford's, Calgary, Alta.
Bastion Curios, Victoria, B.C.
Bay Coin & Stamp Ltd., Vancouver, B.C.
Beaver Hall Antiques Limited, Gananoque, Ont.
Bosch, W.J., Stirling, Ont.
Brill's Interiors, Willowdale, Ont.
Burridge Century House, Lindsay, at Pleasant Point, Ont.
Canadian Antique Dealers Association, The, Toronto, Ont.
Carims Antiques Ltd., Fredericton, N.B.
Connoisseur Shop Ltd., The, Victoria, B.C.
Cosh, Patricia (Mrs), Wakefield, Que.
Courting Parlour Antiques, Summerside, P.E.I.
Crown Antiques, Peterborough, Ont.
Curiosity Shop Ltd., The, Winnipeg, Man.
Dealers Antiques, Vancouver, B.C.
Dodd's Bros. Auction, Vernon, B.C.
Domus Antica Galleries, Victoria, B.C.
Donaldson, R. Leslie, Antiques, Cambridge, Ont.
Eaton, T. Co. Ltd., The, Montreal, Que.
Eaton's, Toronto, Ont.
Emco Coin & Stamp Ltd., Vancouver, B.C.
Far East Gallery, Toronto, Ont.
Fraleigh Jewellers, Toronto, Ont.
Franklin Mint (Canada) Ltd., The, Rexdale, Ont.
Garlatti, G.B. Antiques, Markham, Ont.

Gauthier, Ninon (Mme), Sherbrooke, Que.
 Georgian Antiques, Montreal, Que.
 Goulden, Mary, Antiques & Gifts, Edmonton, Alta.
 Gurie Gallery (Ontario) Ltd., Toronto, Ont.
 Halifax Antique Shop, Halifax, N.S.
 Harvard Antiques, Montreal, Que.
 Hawkins, Eliza (Ms.), Victoria, B.C.
 L'Heritage Antiquite, Quebec City, Que.
 Homeculture Limited, Toronto, Ont.
 House of Silver Ltd., Winnipeg, Man.
 Hycroft Antiques, Vancouver, B.C.
 Indefinite Article, Saskatoon, Sask.
 Invicta Gallery, Ottawa, Ont.
 Island Trading Co., Victoria, B.C.
 Ivory Treasures Antiques, Montreal, Que.
 J & M Numismatic Investment, Vancouver, B.C.
 Kaiser Porcelain Co., Honeywood, Ont.
 Kennedy and Grant Enterprises Limited, Estevan, Sask.
 Kit & Kaboodle Antiques, Moose Jaw, Sask.
 Klondike Arms & Antiques, Edmonton, Alta.
 Lander, Diane, Antiques, Toronto, Ont.
 Lever Arms Service Ltd., Vancouver, B.C.
 Lilac Lane Farm Antiques, Mississauga, Ont.
 Lukannon Antiques, St. Andrews, N.B.
 MacDonald, Harry, Antiques, & Interiors Limited, Toronto, Ont.
 MacGowan's Old Wares & Antiques, Saskatoon, Sask.
 Mappins Ltd., Toronto, Ont.
 Moir, George, Antique Auto Parts Ltd., Edmonton, Alta.
 Morris Antiques Ltd., Montreal, Que.
 M & M Music, Ingleside, Ont.
 Mullins, Pauline Antiques, Montreal, Que.
 Musée Militaire et Maritime de Montréal, Montreal, Que.
 Le Nautilus Enrg., Quebec City, Que.
 Newberry, R., Antique & Stamp Shop, Victoria, B.C.
 Orient Antique Shop, Winnipeg, Man.
 Oxford Manor Antiques, Oxford Mills, Ont.
 Pacific Antiques Ltd., Victoria, B.C.
 Pan-Am Auction, Winnipeg, Man.
 Parabellum, Ottawa, Ont.
 Paramount Numismatic Ltd., Ottawa, Ont.
 Paraphernalia Distributor, Winnipeg, Man.
 Pearce, H., Ltd., Montreal, Que.
 Pearce Lettner (1977) Ltd., Windsor, Ont.
 Peking Gallery, The, Toronto, Ont.
 Penn's Antiques, Saskatoon, Sask.
 Perren, S.R., Ltd., Toronto, Ont.
 Pig'n Plow Antiques, Burgessville, Ont.

Pine Shop, The, Mahone Bay, N.S.
 Quebec Antiques Inc., Pointe Claire, Que.
 Red Barn Antiques, Surrey, B.C.
 Red's Antiques, St. John, N.B.
 Remany House of Music Ltd., Toronto, Ont.
 Robert Deveau Galleries, Toronto, Ont.
 Rosenthal, A., Jewellery Ltd., Toronto, Ont.
 Rotman, M., Antiques, Toronto, Ont.
 Royal City Antiques Ltd., Maple Ridge, B.C.
 Russell, John L., Reg'd., Montreal, Que.
 St. Ives Antiques & Clocks, Vancouver, B.C.
 Serendipity Collectiques, Winnipeg, Man.
 S.I.A.F. Antiquites, Montreal, Que.
 Simpson, Robert Company Ltd., The, Toronto, Ont.
 Society for Show Dealers Exhibitors of Antiques and Collectibles,
 Toronto, Ont.
 Spooner, Michael, Antiques, Ottawa, Ont.
 Sprague Furniture Limited, Edmonton, Alta.
 Steptoe & Wife Antiques, Toronto, Ont.
 Sugarman, Budd, Interior Design Ltd., Toronto, Ont.
 Swampman's Antiques, Erin, Ont.
 Sweeney's Antiques, Mahone Bay, N.S.
 Swifts Antiques Ltd., Vancouver, B.C.
 Tamarack Acres Antiques, Carleton Place, Ont.
 Tappit Hen Antiques Ltd., Vancouver, B.C.
 Tee, R.H.V., & Sons Ltd., Vancouver, B.C.
 Thistle Coins Limited, Yarmouth, N.S.
 Time Was Ltd., Crapaud, P.E.I.
 Town House Antiques Ltd., The, St. Catharines, Ont.
 Trader's Caravan, Jemseg, N.B.
 Train Station, The, Tatamagouche, N.S.
 Uno Langmann Antiques & Art Gallery, Vancouver, B.C.
 Vanhall Antiques Ltd., Victoria, B.C.
 Victoria Antique Dealers Association, Victoria, B.C.
 Victoria Avenue Antiques, Edmonton, Alta.
 Village Auction, Fort Langley, B.C.
 Waddington Galleries, Montreal, Que.
 Walker, W.S., & Son Auctioneer, Ottawa, Ont.
 Watkins, T.J., Antiques, Vancouver, B.C.
 Westmorland House Antiques, Middle Sackville, N.B.
 White Jade House Ltd., Vancouver, B.C.
 Wild Rose Antique Bottle Collectors, Edmonton, Alta.
 Windebank, Ronald, Antiques, Toronto, Ont.
 Wolfson Antiques Ltd., Toronto, Ont.
 Yesterday Ltd., St. John's, Nfld.
 Yesterdays, Ottawa, Ont.
 Young Galleries, The, Toronto, Ont.

COLLECTIBLESCoins, Medals, Trophies, Prizes

Canadian Association of Wooden Money Collectors, Peterborough,
Ont.
Herbert, Walter B., Aylmer East, Que.

Philatelic Collectibles, Equipment and Literature

Royal Philatelic Society of Canada, The, Ottawa, Ont.

Trophies of War and Military Collectibles

Collectors Books and Comics, Calgary, Alta.
Hazell, Frederick, Langley, B.C.
Rickey, Ron, Winnipeg, Man.
Trostem, R.L., Calgary, Alta.
Walker, Jeff, Vancouver, B.C.

Automobiles, Parts and Equipment

Alberta Pioneer Auto Club, Calgary, Alta.
Alfa Romeo Club of Canada, Toronto, Ont.
Antique and Classic Car Club of Canada, Toronto, Ont.
Antique Auto Association, Regina, Sask.
Antique Automobile Club of Ottawa Inc., The, Ottawa, Ont.
Arbour, Art & Arlene, Thunder Bay, Ont.
Ardron, Allan, Toronto, Ont.
Blackmore, Robert H., Burnaby, B.C.
Botten, Gordon, Prince George, B.C.
Canadian Classic M.G. Club, Vancouver, B.C.
Canadian Street Rod Association, Scarborough, Ont.
Central Alberta Vintage Auto Club, Red Deer, Alta.
Cottenden, C.A., Thunder Bay, Ont.
Crusin' Classic's Car Club, Prince George, B.C.
Cybulski, R.R., Moncton, N.B.
Dicks, Peter F., St. Clair Beach, Ont.
Edmonton Antique Car Club, Edmonton, Alta.
Fedun, Gary W., Thunder Bay, Ont.
Fifty-5-6-7 Chevrolet Club (Canada), Ruskin, B.C.
Funk, Abram B., Agassiz, B.C.
Gibson, Gordon Marshall, Thunder Bay, Ont.
Groves, Robert, Vancouver, B.C.
Halifax Antique Car Club, Halifax, N.S.
Heise, Leonard, Thunder Bay, Ont.
Historical Automobile Society of Canada, Toronto, Ont.

Hopp, Arnold, Abbotsford, B.C.
 Jarrett, William & Mary, Thunder Bay, Ont.
 Kostyniuk, Bob, Thunder Bay, Ont.
 Krotenko, Jim, Prince George, B.C.
 Maepea, Hannes, Thunder Bay, Ont.
 Marsonet, Bob, Thunder Bay, Ont.
 Moir, John C., Thunder Bay, Ont.
 National Association of Antique Automobile Clubs of Canada Corporation,
 The, Toronto, Ont.
 N.B. Antique Auto Club Inc., Riverview, N.B.
 New Service Garage, Scotland, Ont.
 Noble, Gerrie, Thunder Bay, Ont.
 Nordlund, Arthur J., Thunder Bay, Ont.
 Ontario Jaguar Owners Association, Toronto, Ont.
 Pacific International Street Rod Association, Port Moody, B.C.
 Packards International, Calgary, Alta.
 Patterson, Alex B. (M.P.) Fraser Valley East, B.C.
 Prokosh, A.W., Thunder Bay, Ont.
 Rolls Royce Owners Club (Upper Canada Region), Toronto, Ont.
 Russell, Gary, Delta, B.C.
 Sandner, C.L., Christina Lake, B.C.
 Scholes, A., Coquitlam, B.C.
 Shalay, G.W. & Nancy, Kaministiquia, Ont.
 Smith, Frank, Mission, B.C.
 Southern Alberta Antique & Classic Auto Club, Lethbridge, Alta.
 Thornton, Eleanor & Neil, Sardis, B.C.
 Vintage Automobile Racing Association of Canada, Toronto, Ont.
 Vintage Car Club of Canada, Kelowna, B.C.
 Voitures Anciennes Du Québec, Inc., Montreal, Que.
 Ward, Wes, Prince George, B.C.
 White, David E., Thunder Bay, Ont.
 Wieckowski, John, Thunder Bay, Ont.
 Wilson, Hugh, Thunder Bay, Ont.
 Yahn, Allan, Thunder Bay, Ont.

Vintage Radios and Gramophones; Gramophone Records

Bell, Arthur, Burlington, Ont.
 Canadian Vintage Wireless Association, Alberta Chapter, St. Albert, Alta.
 Canadian Vintage Wireless Association, Toronto Chapter, Toronto, Ont.
 Crane's Record Rarities, Gibsons, B.C.

Photographic Apparatus; Motion Pictures and Other Photographic Images

Cinephiles Association, Toronto, Ont.
 Nostalgia Film Society, Toronto, Ont.
 Photographic Historical Society of Canada, The, Toronto, Ont.

Beer and Coca-Cola Collectibles

Mitchell, Tom, Vancouver, B.C.
Walker, Jeff, Vancouver, B.C.

Handmade Articles

Campbell, Gordon A., Don Mills, Ont.
Robert Deveau Galleries, Toronto, Ont.
Ufundi Gallery, Ottawa, Ont.

Dolls and Miniatures

Bedford Wholesale Ltd., Burnaby, B.C.
Coy Brothers, St. Catharines, Ont.
Jacobson, Ruth (Mrs.), Port Alberni, B.C.
Kitchener Importers, Kitchener, Ont.
Soldier Shop, The, Vancouver, B.C.

Limited Editions

Bosch, W.J., Stirling, Ont.
DeYoung, Lawrence, Port Credit, Ont.
Personal Touch, The, Brampton, Ont.
Smith, Wm & Sons, Toronto, Ont.
Sorvin, C.E., Ltd., Vancouver, B.C.
Wedgwood, Josiah, & Sons (Canada) Limited, Willowdale, Ont.

Art Glass including Paperweights

Burns, D.W. (Mrs.), Montreal, Que.
Paperweight Collectors Association (Quebec Chapter), Dorval, Que.
Verre Art Glass, Montreal, Que.

Other CollectiblesWatches, Clocks and Watch Fobs

Canadian Association of Watch Fob Collectors, Caledonia, Ont.
Du Boulay, R.B.H., Toronto, Ont.
National Association of Watch and Clock Collectors, Chapter 33,
Toronto, Ont.

Juke Boxes

Evanish, Paul, White Rock, B.C.

Wooden-Hulled Marine Craft

Lever Arms Service Ltd., Vancouver, B.C.

Vintage Aircraft

Lever Arms Service Ltd., Vancouver, B.C.
Molson, K.M., Islington, Ont.

Vintage Bicycles

Mitchell, Mason W., St. George, N.B.

Horse-Drawn Carriages

Remington, D.C., Cardston, Alta.

Original Cartoon Art

Craggs, R.S., West Hill, Ont.

Second-Hand Periodicals

Bell, W.H., Sidney, B.C.
Magazine Association of Canada, The, Toronto, Ont.

HOBBY EQUIPMENTModelsLive Steamers

British Columbia Society of Model Engineers, Vancouver, B.C.
Fraser Valley Live Steamers, The, Vancouver, B.C.
Rogers, Martin, Vancouver, B.C.
Toronto Society Model Engineers, Toronto, Ont.

Model Kits including Radio Control

Bell, Dr. Richard S., Duncan, B.C.
Book, G., and Company, Downsview, Ont.
Borgfeldt Toys (Canada) Limited, Scarborough, Ont.
Buoy Busters - Calgary, Calgary, Alta.
Canadian Hobbycraft Ltd., Toronto, Ont.
Canadian Toy Manufacturers Association, Kleinburg, Ont.
Downsview Radio Control Fliers, Downsview, Ont.
Easybuilt Models and Crafts Limited, Bracebridge, Ont.
Elgin Cycle & Hobby Centre, St. Thomas, Ont.

Frew & Gordon Limited, Vancouver, B.C.
 Gareau, R.A., Ville de Laval, Que.
 Hansen, P.M., Ltd., Vancouver, B.C.
 Hobbycraft Canada, Rexdale, Ont.
 Hub City Radio Control Club, Saskatoon, Sask.
 International Plastic Modellers Society, Ottawa, Ont.
 Isotronic Electronic Inc., Toronto, Ont.
 Keith's Hobby Shop Ltd., Willowdale, Ont.
 Lark Spur Line, Ottawa, Ont.
 Leisure Dynamics of Canada Limited, Don Mills, Ont.
 Lownds, Martin, & Associates Ltd., Thornhill, Ont.
 MacCall, Robert F., Edmonton, Alta.
 Model Aeronautics Association of Canada - Alberta Zone, Edmonton, Alta.
 Model Aeronautics Association of Canada - Toronto Zone, Oakville, Ont.
 Model Craft Hobbies Limited, Mississauga, Ont.
 Montreal R/C Club, Montreal, Que.
 MPL Hobby Distributors, Chatham, Ont.
 National Model Railroad Association, Central Ontario Division, Niagara
 Frontier Region, Toronto, Ont.
 National Model Railroad Association, 7th Division (British Columbia
 and Yukon), Pacific Northwest Region, Surrey, B.C.
 Naviteer Guidance Systems, Regina, Sask.
 Northern Hobby & Hobby Stop Store, Edmonton, Alta.
 Oakville Model Flying Club, Oakville, Ont.
 Ottawa Valley Associated Railroaders, Ottawa, Ont.
 Parker Brothers, Concord, Ont.
 Peterborough Radio Control Club, Peterborough, Ont.
 Polaris Products Inc., Kelowna, B.C.
 Phillips, R.H., Prince George, B.C.
 Revell of Canada, Mississauga, Ont.
 Saint John Model Flying Club, St. John, N.B.
 Soo Modelers Radio Control Club, Sault Ste Marie, Ont.
 Soper Valley Model Railroad Club, Bowmanville, Ont.
 Star Wholesale Distributors, Burnaby, B.C.
 Stewart, M.D., Edmonton, Alta.
 Stratford Model Club, Stratford, Ont.
 Terlecki, R., Oshawa, Ont.
 Toy Train Operating Society - Canadian Division, Vancouver, B.C.
 Udisco Ltd., Montreal, Que.
 Versailles, Paul Jr., Montreal, Que.
 Warwaruk, Oryst, Edmonton, Alta.
 Winnipeg Model Railroad Club, The, Winnipeg, Man.
 Woodstock Radio Control Flying Club, Woodstock, Ont.

Model Rocketry

Canaroc Industries Ltd., Edmonton, Alta.
 Science Shop, The, Toronto, Ont.

HandicraftsGeneral Crafts

Busy Fingers Handicrafts Ltd., Calgary, Alta.
 Canadian Crafts Council, Ottawa, Ont.
 Hobby Industry Association of Canada, Calgary, Alta.
 Oddie's Central Drug Ltd., Taber, Alta.
 Taylors Arts & Crafts, Calgary, Alta.

Gem and Mineral Collecting and Crafting

Campbell, Gordon A., Don Mills, Ont.
 Gem & Mineral Federation of Canada, The, Calgary, Alta.
 Gem & Mineral Federation of Canada, The, Ottawa, Ont.
 Lapidary Rock & Mineral Society of British Columbia, North Vancouver, B.C.
 Richmond Rock and Gem, Richmond, B.C.
 Toronto Lapidary Supply, Toronto, Ont.

Other Crafts

Arnprior Ceramics, Arnprior, Ont.
 Guild of Canadian Weavers, Massey, Ont.
 Klotsche, Siegfried, Edmonton, Alta.
 Leclerc, Nilus Inc., L'Islet, Que.
 Ostermann, M., Toronto, Ont.
 Whales Arts & Ceramics Ltd., Victoria, B.C.

Radio ApparatusAmateur Radio Operation

Algoma Amateur Radio Club, Sault Ste. Marie, Ont.
 Amphion Electronics Ltd., Moncton, N.B.
 Bonitz, Max. A., Edmonton, Alta.
 Canadian Amateur Radio Federation Inc., Kingston, Ont.
 Canadian Radio Relay League, The, Sackville, N.B.
 Canadian Radio Relay League, The, British Columbia Section, Vancouver, B.C.
 Crosthwaite, Percy A., Saskatoon, Sask.
 Glenwood Trading Company Ltd., North Vancouver, B.C.
 Halifax Amateur Radio Club, Halifax, N.S.
 Jopson, John G. (BCFMCA), Lions Bay, B.C.
 Leaside Radio Club, Leaside, Ont.
 Moncton Area Amateur Radio Club Inc., Moncton, N.B.
 Northern Alberta Radio Club, Edmonton, Alta.
 Oakville Amateur Radio Club Inc., Oakville, Ont.
 Oehlke, Bert B., Prince George, B.C.

Peddle, Ronald C., St. John's, Nfld.
 Peel Amateur Radio Club Inc., The, Brampton, Ont.
 Pringle, W.R., Victoria, B.C.
 Radio Society of Ontario, Inc., Toronto, Ont.
 R & S Electronics, Dartmouth, N.S.
 Russell, Audrey H. (Mrs.), Sidney, B.C.
 Scarborough Amateur Radio Club Incorporated, Scarborough, Ont.
 Surrey Amateur Radio Club, White Rock, B.C.
 Victoria Amateur Radio Repeater Association, Victoria, B.C.
 Victoria Short Wave Club, Victoria, B.C.

General Radio Service

Leaside Radio Club, Leaside, Ont.

Short Wave Radio Receivers

Ontario DX Association, Don Mills, Ont.

Weaponry

Black Powder

Canadian Black Powder Federation, Edmonton, Alta.
 Canadian Black Powder Federation, Port Moody, B.C.

Military Representations

84th Regiment of Foot, Royal Highland Emigrants, Regimental Association
 Ottawa, Ont.
 King's Royal Yorkers', Museum of Applied Military History, King, Ont.

Target Rifles

International Imports for Competitive Shooting Equipment, Waterloo, Ont.

Small Arms

Hough, Douglas, Vancouver, B.C.
 Lever Arms Service Ltd., Vancouver, B.C.

Primers, Gunpowder

Norris, D.J., South Surrey, B.C.

Outdoor Recreations

Scuba Diving

Argosy Sports, Scarborough, Ont.
Association of Canadian Dive Stores, Brantford, Ont.
Association of Canadian Diving Manufacturers, Surrey, B.C.
Association of Canadian Underwater Councils, Vanier, Ont.
Bob's Sport & Dive, Hamilton, Ont.
Diving Locker, Vancouver, B.C.
Eldon Industries of Canada Inc., Don Mills, Ont.
Fitz-Wright Manufacturing Ltd., Surrey, B.C.
Inland Divers Supply Ltd., Lethbridge, Alta.
Isoteq, Montreal, Que.
Jackson, Naomi, Calgary, Alta.
Kirstein, R.D., St. Albert, Alta.
Malcolmson, Pat, Calgary, Alta.
Mount Ocean Dive Center Ltd., Edmonton, Alta.
National Association of Underwater Instructors (NAUI), Etobicoke, Ont.
Odyssey Diving Centre, Vancouver, B.C.
Ontario Underwater Council, Toronto, Ont.
Points West Diving Ltd., North Vancouver, B.C.
Sault Sub Aqua, Sault Ste Marie, Ont.
Scubapro, Lummi Island, Wash., U.S.A.
Shales, Lloyd, Diving Supplies, Kingston, Ont.

Parachuting

Canadian Sport Parachuting Association, Vanier, Ont.
Irvin Industries Canada Ltd., Fort Erie, Ont.

Mountain Climbing

Alpine Club of Canada, The, Banff, Alta.
La Cordée, Montreal, Que.
La Fédération Québécoise de la Montagne, Montreal, Que.
Maitland, Ernest Y., Burnaby, B.C.
Mountain Equipment Co-op, Vancouver, B.C.

International Athletics

Sports Federation of Canada, Ottawa, Ont.

Archery

Manitoba Archery Association, The, St. Boniface, Man.

Football

Canadian Amateur Football Association, Vanier, Ont.
Renfrew-Burnaby Heights Football Club, Vancouver, B.C.

Other Pastimes

Astronomy

Green, Norman, Etobicoke, Ont.
Lamb, Benjamin, Toronto, Ont.
Maple Ridge Amateur Astronomers Society, Maple Ridge, B.C.
Royal Astronomical Society of Canada, Edmonton Centre, Edmonton, Alta.
Royal Astronomical Society of Canada, Halifax Centre, Halifax, N.S.
Royal Astronomical Society of Canada, London Centre, London, Ont.
Science, Telescopes and Reports Society (STARS), Port Coquitlam, B.C.

Chess

Chess Federation of Canada, Ottawa, Ont.

Pigeon Racing

Canadian Racing Pigeon Union Incorporated, London, Ont.
Fredericton Racing Pigeon Club, Fredericton, N.B.

Billiards

World of Billiards (Ontario Billiard Supply Company Limited), Toronto, Ont.

Musical Instruments

Caouette, Gilles (M.P.), Ottawa, Ont.

Government Departments and Agencies

Department of Industry Trade and Commerce, Ottawa, Ont.
National Museum of Man, Ottawa, Ont.
National Museum of Science and Technology, Ottawa, Ont.
National Museums of Canada, Ottawa, Ont.
National Postal Museum, Ottawa, Ont.
Revenue Canada, Customs and Excise, Ottawa, Ont.

APPENDIX 2IMPORTS UNDER THE SPECIFICALLY REFERRED TARIFF ITEMS

Three tariff items were specifically mentioned in the Minister's letter of reference to the Tariff Board. These items were 69200-1 ("coins or medals for collections; postage stamps"), 69210-1 ("trophies of war"), and 69315-1 ("articles produced more than fifty years prior to the date of importation"). Since April 1, 1977 the latter item has also included goods formerly classifiable under ex-item 69310-1 ("violins, violas and violoncellos, manufactured more than 100 years prior to date of importation"). Statistics indicating changes in the value of imports under these items between 1966 and 1978 are contained in Table 1. A graphic presentation of these data is given in Figure 1.

Referring to this information, it will be readily apparent that of the four tariff items mentioned above, two (i.e. 69210-1 and 69310-1) have been of small account. At no time during the period covered did the value of imports under 69310-1 (violins etc.) exceed 3 per cent of the value of total imports under the four specified classifications; in the case of 69210-1 (war trophies) the corresponding proportion was 0.3 per cent. Essentially, therefore, the data pertain to tariff items 69315-1 and 69200-1, with the former generally accounting for between two-thirds and four-fifths of the value of imports under all pertinent classifications. In 1978, imports under item 69315-1 (articles more than 50 years old) amounted to almost \$28 million, while goods admitted under item 69200-1 (coins, stamps, etc.) were valued at \$6.6 million. In the years between 1966 and 1978 imports of both classes of goods increased very substantially, annual compound rates of growth averaging 22.5 per cent in respect of commodities entered under item 69315-1 and 25.8 per cent in the case of numismatic and philatelic articles.

The extent to which such growth can be attributed to real increases in demand is debatable. Over the period as a whole, and more particularly since 1972, the import values of almost all commodities have risen sharply by virtue of worldwide inflation, while in more recent years Canadian imports have also become dearer on account of foreign exchange depreciation. Clearly, these factors must have played some part in the increase in the value of imports under the specifically referred tariff items, including that under 69315-1 in the period since April 1, 1977, when the provision in relation to the age of eligible merchandise was reduced from 100 to 50 years.

A breakdown of the pertinent data on a quarterly basis indicates imports under items 69310-1 and 69315-1 rising from \$3.2 million in the first quarter of 1977 to \$5.6 million in the second quarter (see Table 2 and Figure 2). An increase of this order within the time span indicated is larger than can be accounted for solely in terms of the aforementioned monetary considerations. However, it does not necessarily follow that the larger part of the above increase in imports can be attributed to the change in the tariff provisions. As the data reveal, imports under item 69315-1 (and, to a lesser extent, item 69200-1)

Table 1: Value of Imports Under Specifically
Referred Tariff Items, 1966 to 1978

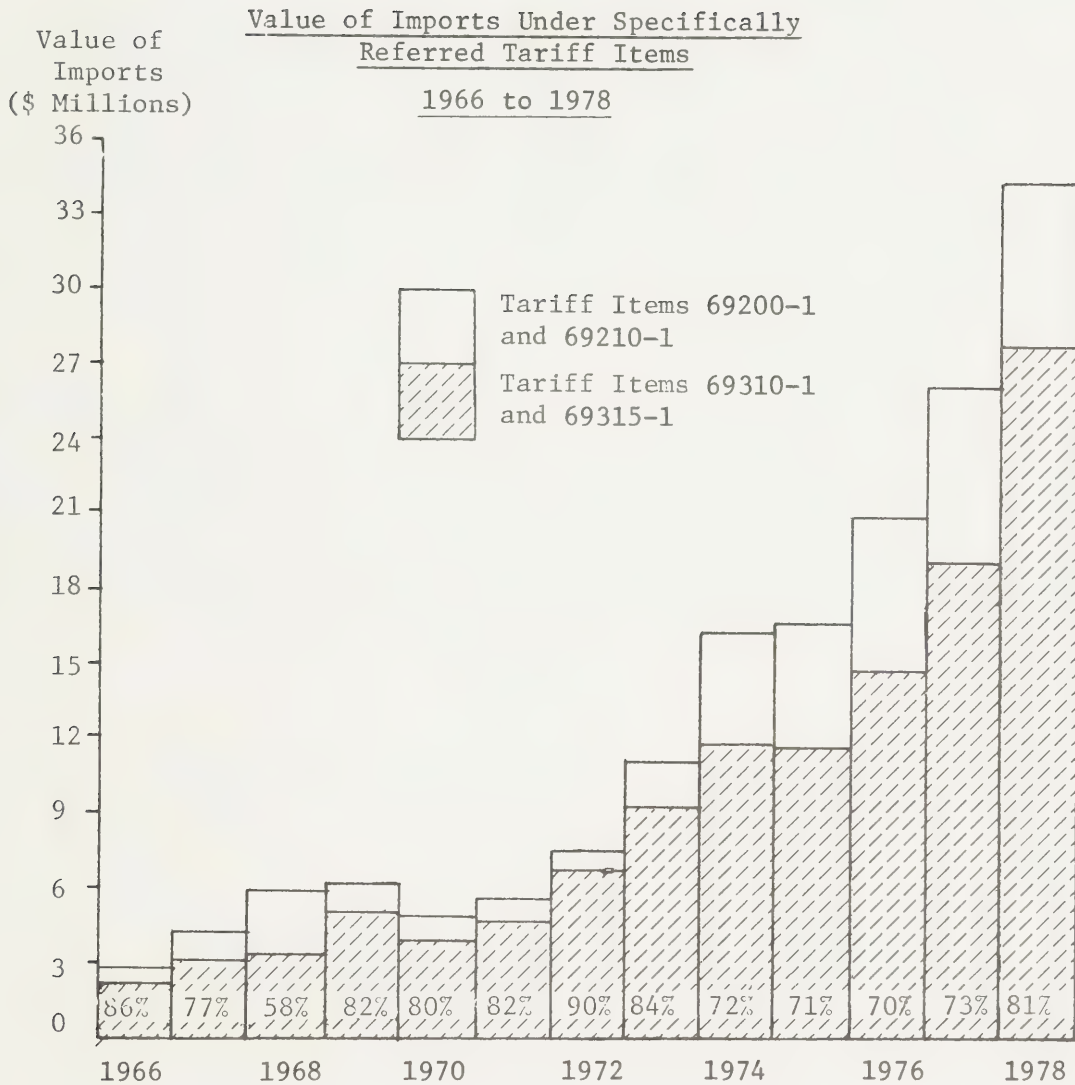
	Item <u>69200-1</u>	Item <u>69210-1</u>	Item <u>69310-1</u>	Item <u>69315-1</u>	Sub-total Items 69310-1 & 69315-1	<u>Total</u>
	- \$'000 -					
1966	421	-	53	2,452	2,505	2,926
1967	950	-	116	3,038	3,154	4,104
1968	2,495	-	78	3,345	3,423	5,918
1969	1,082	-	139	4,884	5,023	6,105
1970	993	-	106	3,855	3,961	4,954
1971	1,026	-	79	4,578	4,657	5,683
1972	760	9	148	6,713	6,861	7,630
1973	1,774	8	115	9,257	9,372	11,154
1974	4,537	2	125	11,640	11,765	16,304
1975	4,836	43	273	11,425	11,698	16,577
1976	6,161	40	310	14,399	14,709	20,910
1977	7,109	22	257	18,788	19,045	26,176
1978	6,594	1	-	27,952	27,952	34,547

- Annual Percentage Change -

1966/7	+125.7	-	+118.9	+23.9	+25.9	+40.3
1967/8	+162.6	-	-32.8	+10.1	+8.5	+44.2
1968/9	-56.6	-	+78.2	+46.0	+46.7	+3.2
1969/70	-8.2	-	-23.7	-21.1	-21.1	-18.9
1970/1	+3.3	-	-25.5	+18.8	+17.6	+14.7
1971/2	-25.9	-	+87.3	+46.6	+47.3	+34.3
1972/3	+133.4	-11.1	-22.3	+37.9	+36.6	+46.2
1973/4	+155.7	-75.0	+8.7	+25.7	+25.5	+46.2
1974/5	+6.6	+2,150.0	+118.4	-1.8	-0.6	+1.7
1975/6	+27.4	-6.9	+13.6	+26.0	+25.7	+26.1
1976/7	+15.4	-45.0	-17.1	+30.5	+29.5	+25.2
1977/8	-7.2	-95.5	-	+48.8	+46.8	+32.0
1966/78	+25.8	-	-	+22.5	+22.3	+22.8

Source: Statistics Canada, Computer Printouts by Tariff Item.

FIGURE 1



Source: Table 1.

exhibit a marked seasonal pattern, with the second and fourth quarters generally showing increases over the first and third quarters respectively. Consequently, it may reasonably be argued that part, at least, of the increase in imports under 69315-1 after April 1, 1977 would have occurred in any case as a result of normal seasonal tendencies.

There remains the question of the extent to which the recent growth in imports under tariff item 69315-1 has entailed a net absolute increase in the admission of articles over 50 years of age, as opposed to a reclassification of such articles previously brought in under other (dutiabale) heads. To answer this question - and then only imperfectly - would require a detailed examination of customs documentation pertaining to entries over a period of years under tariff item 51901-1 ("house, office, cabinet and store furniture") and a range of other items in order to determine what, if any, changes have taken place in the composition of goods classified thereunder. Such a study does not appear warranted in the present instance.

With respect to the geographical sources of imports under the specifically referred items, it may be noted that whereas in 1976 exactly 50 per cent of imports under item 69315-1 came from the United Kingdom (presumably representing better-class antique merchandise), in 1978 only 36 per cent of corresponding imports came from the same source, with a larger proportion originating in the United States. In the case of tariff item 69200-1 (coins, stamps, etc.) approximately three-fifths of pertinent imports in 1978 came from the United States.

Table 2: Value of Imports Under Specifically Referred
Tariff Items, by Quarter, 1971-1978

Tariff Items 69200-1 & 69210-1

	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>
	- \$'000 -							
1971	236	311	258	221	23	30	25	22
1972	161	271	163	174	16	26	16	17
1973	273	345	689	464	27	34	67	45
1974	636	1,789	1,137	978	62	174	111	95
1975	1,523	1,129	898	1,313	148	110	87	128
1976	1,012	1,872	1,570	1,745	98	182	153	170
1977	1,934	1,664	1,861	1,670	188	162	181	162
1978	1,694	2,275	1,482	1,146	165	221	144	111

Tariff Items 69310-1 & 69315-1

	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>
	- \$'000 -							
1971	711	1,187	1,236	1,522	21	36	37	46
1972	1,012	2,297	1,393	2,160	31	69	42	65
1973	1,720	2,410	2,320	2,992	52	73	70	90
1974	2,540	2,943	2,923	3,362	77	89	88	101
1975	2,539	3,208	2,477	3,468	77	97	75	105
1976	3,937	3,882	3,040	3,838	119	117	92	116
1977	3,245	5,568	4,189	6,044	98	168	126	182
1978	5,623	6,781	6,809	8,714	170	205	205	263

(a) Quarterly Average 1971-1978 = 100.

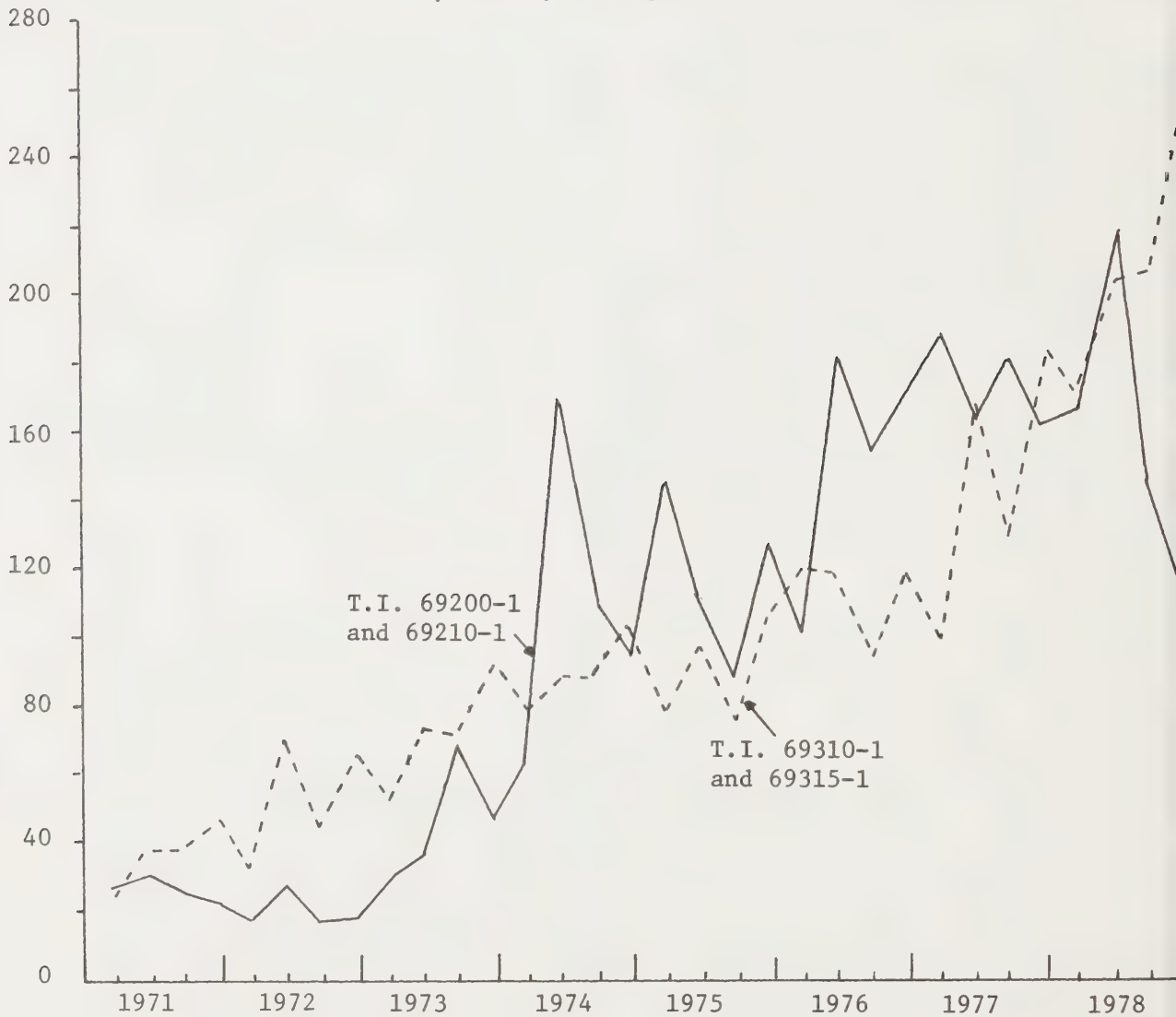
Source: Statistics Canada, Computer Printouts by Tariff Item.

FIGURE 2

Value of Imports Under Specifically
Referred Tariff Items by Quarter

Index
No.

Quarterly Average 1971 - 1978 = 100



Source: Table 2.

APPENDIX 3SOME CONSIDERATIONS AFFECTING HOBBY EQUIPMENT PRICES IN CANADA

During the course of the inquiry the Board was provided with many comparisons of hobby equipment prices in the United States and Canada. These generally showed Canadian retail prices (in Canadian \$) substantially higher - in some cases by 60 or 70 per cent - than the corresponding American prices (in U.S. \$). A small sampling of these prices is given below:

<u>Type of Equipment</u>	<u>U.S. \$</u>	<u>Cdn. \$</u>
Amateur radio transceiver	669.95	1,069.95
Astronomical telephoto lens	495.00	813.00
Parachute automatic opening device	270.00	355.32
Model plane kit	55.95	83.95
Model railroad	37.50	61.95

Import duties, generally ranging between 10 p.c. and 25 p.c., comprise only one element in the higher Canadian price structure. Other elements include: federal sales taxes (not imposed in the United States); higher retail mark-ups in relation to basic prices; a generally higher incidence of taxation at the provincial/state level (in part reflecting the higher retail prices); and, in recent years, the reduced value of the Canadian dollar in relation to the American dollar. When, as is common practice, these various elements are compounded one on top of the other, the end result for the Canadian purchaser may be a "take-home" price for an imported item twice that paid by the Canadian importer in American currency.

The following theoretical examples illustrate both the magnitude of this compounding effect and the relative weights of the various cost elements under differing assumptions.

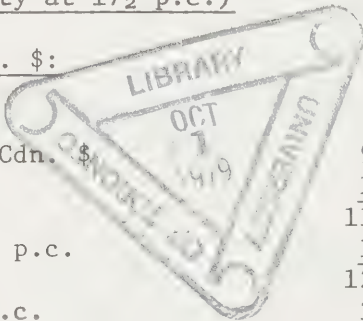
Example 1: Different Rates of Import Duty
(Cdn. \$ at par with U.S. \$)

<u>Duty Rate:</u>	<u>0</u>	<u>10 p.c.</u>	<u>17½ p.c.</u>	<u>25 p.c.</u>
Import price (f.o.b.)	100.00	100.00	100.00	100.00
Import duty	-	10.00	17.50	25.00
Sub-total	100.00	110.00	117.50	125.00
Federal sales tax at 9 p.c.	9.00	9.90	10.58	11.25
Sub-total	109.00	119.90	128.08	136.25
Retail mark-up at 30 p.c.	32.70	35.97	38.42	40.88
Sub-total	141.70	155.87	166.50	177.13
Provincial sales tax at 7 p.c.	9.92	10.91	11.66	12.40
Total	151.62	166.78	178.16	189.53
Full cost of duty:	-	15.16	26.54	37.91

In this model, differences in costs at each stage are attributable to differences in rates of import duty. The overall result is that a \$100 item liable to an import duty of \$25 costs the consumer, not \$25 more, but \$37.91 more than if no duty were payable. It is assumed in the example that importation is by the retailer, no allowance being made for mark-ups at the wholesale distribution level. The retail mark-up (assumed at 30 per cent) appears as the largest single element of added cost in the above calculations, being roughly equivalent, on average, to the duty and tax elements combined. Although the position was not taken at the hearings, there was a suggestion that some dealers might prefer the continuing imposition of duties and taxes since, given a fixed percentage mark-up of retail costs, a larger retail profit per article can be achieved on taxed merchandise than on untaxed goods. However, the distributors appearing before the Board were more evidently inclined to seek higher profits through larger turnover (via lower prices) than through higher margins.

As will be apparent, other cost elements, in addition to import duties, have their effects compounded as a result of present pricing practices. It may be calculated from Example 1, for instance, that the true cost of the federal sales tax imposed (at 9 p.c.) on imported goods valued at \$100 and dutiable at 25 p.c., is not \$11.25 but \$15.65. Even more interesting in this regard is the effect which changes in the value of the Canadian dollar may have upon the prices of imported goods. Example 2 sets out a range of possible situations.

Example 2: Different Rates of Currency Exchange
(Import duty at 17½ p.c.)



Value of Cdn. \$ in U.S. \$:	1.05	1.00	0.90	0.85	0.80
	\$	\$	\$	\$	\$
Import price (f.o.b.) Cdn. \$	95.24	100.00	111.11	117.65	125.00
Import duty	16.67	17.50	19.44	20.59	21.88
Sub-total	111.91	117.50	130.55	138.24	146.88
Federal sales tax at 9 p.c.	10.07	10.58	11.75	12.44	13.22
Sub-total	121.98	128.08	142.30	150.68	160.10
Retail mark-up at 30 p.c.	36.59	38.42	42.69	45.20	48.03
Sub-total	158.57	166.50	184.99	195.88	208.13
Provincial sales tax at 7 p.c.	11.10	11.66	12.95	13.71	14.57
Total	169.67	178.16	197.94	209.59	222.70
Full cost of devaluation:	(8.49)	-	19.78	31.43	44.54

Since 1976, the Canadian dollar has moved within a few cents of both the upper and lower limits indicated in this example. In the model a maximum import price difference of \$29.76 Cdn. is translated by stages into a difference of \$53.03 paid out of the consumer's pocket. It was frequently argued before the Board that devaluation was the most important recent factor in widening the spread between U.S. and Canadian prices of hobby equipment. The above figures tend to give support to this line of argument.

3 1761 11549331 4

